Contribution ID: fec451fe-c940-4e4c-8227-d0b2965a450d
Date: 26/08/2021 15:24:31

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

Fields marked with * are mandatory.

Introduction

Disclaimer:

This call for feedback is part of ongoing work by the Platform on Sustainable Finance, which was set up by the Commission to provide advice on the further development of the EU taxonomy framework.

This feedback process is not an official Commission consultation. The draft report produced by the Platform is not an official Commission document. Nothing in this feedback process commits the Commission nor does it preclude any policy outcomes.

In March 2018 the Commission published its action plan: financing sustainable growth, based on the advice of the High Level Expert Group (HLEG). Action 1 of the Commission’s action plan calls for the establishment of an EU classification system for sustainable activities, or taxonomy. The Commission followed through on this action by proposing a regulation for such a taxonomy. The Taxonomy Regulation was adopted by the co-legislators in June 2020. It establishes the basis for the EU taxonomy by setting out 4 overarching conditions that an economic activity has to meet in order to qualify as making a substantial contribution to environmental objectives.

Development of the EU taxonomy relies on extensive input from experts from across the economy and civil society. The Platform on Sustainable Finance plays a key role in enabling such cooperation by bringing together the best expertise on sustainability from the corporate and public sector, from industry as well as academia, civil society and the financial industry join forces.

While the work started with classifying environmentally sustainable activities, the need to better understand socially sustainable investments was acknowledged from the onset, and featured among the recommendations of the HLEG in 2018.

In October 2020, the Commission established the Platform for Sustainable Finance, and created with five working groups, including the Subgroup on social taxonomy, which was tasked to:

1. explore the extension of the taxonomy regulation to social topics
2. elaborate potential objectives of a social taxonomy
3. work out a structure of a social taxonomy
4. identify approaches to substantial contribution and ‘do no significant harm’ in the field of ‘social’
5. reflect on governance, business ethics, anti-bribery and tax compliance
6. consider potentially harmful activities
7. suggest a relationship between a green and a social taxonomy

On 12 July 2021, the Platform published its first draft report on a proposal for a social taxonomy.

The report assesses the merits of a social taxonomy in addition to the environmental taxonomy, and explores possible avenues to complement the existing taxonomy. The report also proposes various objectives and sub-objectives for a social taxonomy, as well as possible approaches for defining “substantial contribution” and “do no significant harm” criteria. Finally, it develops two alternative models for articulating the social taxonomy with the environmental taxonomy.

Call for feedback

The Platform is inviting stakeholders to provide feedback on the draft report through this online questionnaire.

The deadline for providing feedback is Friday 27 August close of business.

In the online questionnaire, you will be asked to comment on certain aspects of the report and make suggestions.

Next steps

The Platform is still working on some important aspects of these questions and will proceed to develop its final report and final recommendations after considering the stakeholder input collected through this call for feedback.

The Platform will submit the final report with their advice to the Commission in autumn 2021. The Commission will analyse and consider the report in view of the continuous developing of the EU taxonomy, as anticipated in the new sust ainable finance strategy.

By the end of 2021, the Commission will publish a report on the provisions required for a social taxonomy, as required by the Taxonomy Regulation.

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-platform-sf@ec.europa.eu.

More information on

- the call for feedback document
- the draft report on a social taxonomy

- [the publication of the 2 draft reports]
- [the Platform on Sustainable Finance]
- [sustainable finance]
- [the protection of personal data regime for this call for feedback]

About you

*I am giving my contribution as

- Academic/research institution
- (selected) Business association
- Company/business organisation
- Consumer organisation
- EU citizen
- Environmental organisation
- Non-EU citizen
- Non-governmental organisation (NGO)
- Public authority
- Trade union
- Other

*First name

Ulrik

*Surname

Poulsen

*Email (this won't be published)

ulp@fida.dk

*Organisation name

255 character(s) maximum

Finance Denmark

Transparency register number

255 character(s) maximum

Check if your organisation is on the transparency register. It's a voluntary database for organisations seeking to influence EU decision-making.

20705158207-35

*Organisation size

- Micro (1 to 9 employees)
- Small (10 to 49 employees)
- [x] Medium (50 to 249 employees)
- Large (250 or more)

*Where are you based and/or where do you carry out your activity?

- Austria
- Belgium
- Bulgaria
- Croatia
- Cyprus
- Czech Republic
- [x] Denmark
- Estonia
- Finland
- France
- Germany
- Greece
- Hungary
- Iceland
- Ireland
- Italy
- Latvia
- Liechtenstein
- Lithuania
- Luxembourg
- Malta
- Netherlands
- Norway

- Poland
- Portugal
- Romania
- Slovakia
- Slovenia
- Spain
- Sweden
- Switzerland
- United Kingdom
- Other country

Field of activity

* Financial activity

Please select as many answers as you like

- [ ] Accounting
- [ ] Auditing
- [x] Banking
- [ ] Credit rating agencies
- [ ] Insurance
- [ ] Pension provision
- [x] Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- [ ] Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- [ ] Social entrepreneurship
- [ ] Other
- [ ] Not applicable

* Non-financial activity (NACE)

Please select as many answers as you like

- [ ] Agriculture, forestry and fishing
- [ ] Mining and quarrying
- [ ] Manufacturing
- [ ] Electricity, gas, steam and air conditioning supply
- [ ] Water supply; sewerage, waste management and remediation activities
- [ ] Construction

- [ ] Transportation and storage
- [ ] Accommodation and food service activities
- [ ] Information and communication
- [ ] Real estate activities
- [ ] Professional, scientific and technical activities
- [ ] Administrative and support service activities
- [ ] Public administration and defence; compulsory social security
- [ ] Education
- [ ] Human health and social work activities
- [ ] Other
- [x] Not applicable

* **Contributions received are intended for publication on the Commission’s website. Do you agree to your contribution being published?**

The Commission will publish the responses to this public consultation. You can choose whether you would like your details to be made public or to remain anonymous.

- (●) **Yes, I agree to my responses being published under the name I indicate** (name of your organisation/company/public authority or your name if your reply as an individual – your email address will never be published)
- ( ) **No, I do not want my response to be published**

- [x] I agree with the [personal data protection provisions]

Your opinion

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

- [x] supporting investment in social sustainability and a just transition
- [x] responding to investors’ demand for socially orientated investments
- [ ] addressing social and human rights risks and opportunities for investors
- [x] strengthening the definition and measurement of social investment
- [ ] other

- [ ] none

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
- [x] increasing administrative burden for companies
- [x] 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.

(1) data reliability and oversight / "social washing" within the taxonomy, and (2) scalability of the taxonomy / avoiding a "niche" taxonomy.

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.

The Platform differentiates between the contribution to social objectives made through products and services sold by companies (vertical dimension), and the contribution made through processes, value chains and conducts to the respect of human rights (horizontal dimension). We agree that both aspects need to be reflected in a social taxonomy. We also agree with the approach using the concept of availability, accessibility, acceptance, and quality (AAAQ) for defining substantial contribution (SC) and do no significant harm (DNSH) criteria. The report discusses various options and methodological approaches to the structure of a social taxonomy, and how the vertical and horizontal dimension can be applied. The various options and approaches can be hard to navigate through, and it is difficult to fully comprehend how the two dimensions should work in practice. More systematism in the way the different options and approaches are presented and applied would be beneficial.

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
- [x] 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.

At this point in time, we believe that it would be more beneficial to first have a discussion on which principles should be applied for selecting sectors, before engaging in operationalization and de facto selection. E.g., should a product (e.g., public housing) qualify across the entire value chain (from manufacturer of cement, clay, and plaster, to renting real estate), or should it just be the activity of providing the product to the end user (i.e., renting real estate) that qualifies?

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?

- (x) 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.

Crucial aspects of a social taxonomy relate to processes in companies to respect human rights and avoid human rights infringements. This requires that some aspects of the social taxonomy target the economic entities and not their economic activities. As stated in our answer to question 2, we acknowledge that a social taxonomy also needs to consider human rights processes.

The delegated act that is to be issued pursuant to the Sustainable Finance Disclosure Regulation (SFDR) is expected to require measuring social adverse impacts based on specific indiators. The horizontal dimension seems to have certain overlaps to the SFDR adverse impact reporting and needs to be aligned with the SFDR.

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

- [x] A1.1.5 - Growing of tobacco
- [x] 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;
- [x] C12 - Manufacture of tobacco products
- [ ] C13 - Manufacture of textiles
- [ ] C15.2 - Manufacture of footwear
- [ ] C20.2 - Manufacture of pesticides and other agrochemical products
- [x] C25.4 - Manufacture of weapons and ammunition
- [x] C25.4.0 - Manufacture of weapons and ammunition
- [x] C30.4 - Manufacture of military fighting vehicles
- [ ] G46.1.6 - Agents involved in the sale of textiles, clothing, fur, footwear and leather goods
- [x] 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
- [x] G47.1.1 - Retail sale tobacco predominating
- [ ] N80.1 - Private security activities
- [ ] O84.2.2 - Defence activities
- [ ] Other

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 observe that sustainability linked remuneration is an important tool that more and more companies are implementing as part of their remuneration policies, and that it is a budding market standard independent of regulation, where shareholders can exercise their influence on the general assembly, when discussing and approving executive compensation. Therefore, we believe that regulation focusing on transparency would be sufficient at this stage.

For the financial sector, the Sustainable Finance Disclosure Regulation (SFDR) already sets rules on making remuneration policies publicly available and ensuring that they are consistent with the integration of sustainability risks.

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

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.

The overall vision for the taxonomy should be to guarantee that all taxonomy compliant investments ensure a fundamental level of sustainability, i.e., DNSH criteria. Differentiating these between environmental and social investments would imply an inconsistency and an additional administrative burden that is not constructive. An increasing number of companies and activities in the Nordics would most likely qualify for both the social and one of the green objectives going forward (e.g., nearly zero energy social housing), and as such there is a risk of "cherry picking" between DNSH criteria, if they are different for the different objectives. There could be a risk that a detrimental volume of activities in practice would be excluded by combining the green and the social taxonomy, especially in developing countries. Finance Denmark would therefore welcome an assessment of the consequences on asset eligibility of the two models before the Platform makes its final decision.

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.

Progress must be done on social matters to ensure a fair and just transition of the economy and to achieve the UN Sustainability Development Goals (SDGs). A social taxonomy can bring alignment on how social aspects are measured and make it easier for investors to make informed decisions and channel resources towards socially sustainable activities and companies and contribute to the SDGs. It has the possibility to drive change at scale, if designed right.

It is important that the taxonomy clearly delineates its geographical focus (EU vs. global level), reflecting on what impact it aims to create outside the EU. Whereas the impact of the green taxonomy via e.g., GHG-reductions, by default creates global benefits, social impacts can be locally confined depending on a company's supply chain. EU has a global responsibility beyond the supply chain to promote a socially just transition of the global economy. Given this, it is important to base a social taxonomy on globally recognized principles and norms to maximize the potential for redirecting capital flows, also beyond EU border.

In this context it is important to recognize that whereas all countries have social challenges, they are relatively different in nature, depending on a country's socio-economic development, and the degree to which the government takes ownership of the social challenges. This calls for relative thresholds in the social taxonomy. The existing taxonomy focuses on investments, but will also naturally be applicable to lending. It is therefore also important that the taxonomy is developed in such a way that it can be used by credit institutions as an effective tool for social transformation across geographies (e.g., by relative instead of absolute income thresholds for social housing).

Many existing financial services and products have a positive social impact and these services, products, and their funding should be accommodated in the social taxonomy, if the social profile is on a satisfactory level on par with or better than the requirements in the taxonomy. For instance, nondiscriminatory access to property finance on equal terms for all borrowers is an inherent part the Danish mortgage system that makes it possible to all potential and existing homeowners to finance their home independent of social parameters. Another example is the financing of public housing by covered bonds. One in five Danes lives in public housing. Social conditions are considered in the composition of tenants in the public housing sector that caters for socially challenged people, while also balancing this with a diverse demographic composition to achieve a mixed composition of residents that also includes resourceful people. When developing a social taxonomy, it is important that existing well-functioning systems with a sound social profile are properly considered as an inspiration for the taxonomy and qualify as social under the coming social taxonomy as social products, social bonds etc.

Data availability will constitute an imperative challenge for establishing an effective social taxonomy. It is key that the first version of the social taxonomy is calibrated to be effective also with current data availability, while working actively to improve data requirements via e.g., the Corporate Sustainability Reporting Directive (CSRD). If the taxonomy ends up being significantly out of sync with current data availability, it risks low adoption, as the cost of generating data and documentation for issuers could overweigh the benefits of the social investment label that a social taxonomy provides. We also note the importance of having material, clearly explained, and defined, and, to the extent possible, quantitative metrics. Also, it is of essence to ensure data reliability, validity, verification, and oversight, as some social metrics, especially the qualitative metrics, can be subject to individual and subjective assessment by the issuer.

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.
You can upload several files.
Only files of the type pdf,txt,doc,docx,odt,rtf are allowed

27cd4892-4ddf-46b7-8884-c86dbd9f9d03
/Finance_Denmark_s_five_principles_for_the_future_work_on_a_social_taxonomy_in_the_EU.pdf

Useful links

Call for feedback document (https://ec.europa.eu/info/files/2021-social-taxonomy-report-call-for-feedback-document_en)

Draft report on a social taxonomy (https://ec.europa.eu/info/files/210712-sustainable-finance-platform-report-soci taxonomy_en)

More on the publication of the 2 draft reports (https://ec.europa.eu/info/publications/210712-sustainable-finance-platform-draft-reports_en)

More on sustainable finance (https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en)

Platform on Sustainable Finance (https://ec.europa.eu/info/business-economy-euro/banking-and-finance /sustainable-finance/overview-sustainable-finance/platform-sustainable-finance_en)

Specific privacy statement (https://ec.europa.eu/info/files/2021-social-taxonomy-report-specific-privacy-statement_en)

Contact

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