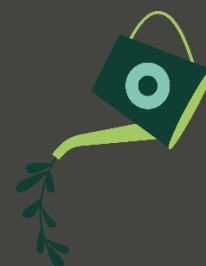


# EU Platform on Sustainable Finance - Final Report on a Social Taxonomy



Financial Services & Markets

4 MARCH 2022

**On 28 February 2022, the EU Platform on Sustainable Finance (the Platform) published its [Final Report](#) on a potential Social Taxonomy. This sets out the Platform's proposals for a structure for a social taxonomy under EU sustainability legislation.**

The purpose of the proposed social taxonomy (**Social Taxonomy**) would be broadly to direct capital flows to activities that operate with respect for human rights and support capital flows to investments that improve living and working conditions, especially for the disadvantaged. The Social Taxonomy will be largely based on internationally agreed norms and principles such as those under the Universal Declaration of Human Rights and European Social Charter.

The Social Taxonomy would largely follow the structure of the Environmental Taxonomy under the EU Taxonomy Regulation and would be based on three main social objectives; detailed substantial contribution criteria; "do no significant harm" (**DNSH**) criteria, and minimum safeguards.

To be aligned with the Social Taxonomy an economic activity would need to make a substantial contribution to one of the social objectives while also ensuring that it does no significant harm to the other objectives and complies with the minimum safeguards. Unlike the Environmental Taxonomy, the three social objectives would also contain specific sub-objectives.

We discuss the Platform's proposals in further detail below. Further work on a Social Taxonomy is expected in due course but no timings are provided in the Final Report.

## SOCIAL OBJECTIVES

The Social Taxonomy would include the following three main social objectives, each with a number of sub-objectives:

- **Decent Work (including for value-chain workers):** This objective focuses on people in their working lives or as workers. The Platform believe that this objective should extend to workers outside the EU and, in particular, the working conditions of workers in the supply chain.

Sub-objectives for this objective include promoting decent work (such as promoting collective bargaining, ensuring living wages and avoiding precarious working conditions); promoting equality and non-discrimination at work, and ensuring respect for the rights of workers in the value chain.

- **Adequate living standards and wellbeing for end-users:** This objective focuses on people in their capacity as end-users of certain products and services that either pose heightened health or safety risks or that have the potential to help people meet basic human needs.

Sub-objectives for this objective include ensuring healthy and safe products and services; engaging in responsible marketing practices, and improving access to good quality drinking water, food and housing.

- **Inclusive and sustainable communities and societies:** This objective emphasises respect for and supporting human rights by paying attention to the impacts of economic activities on communities and society.

Sub-objectives for this objective include promoting equality and inclusive growth (for example, through improving access to basic economic infrastructure and support to children); supporting sustainable livelihoods and land rights (for example, through community-driven development), and ensuring respect for the human rights of affected communities, particularly indigenous people's groups.

The Platform expressly notes that an economic activity does not need to make a substantial contribution to all sub-objectives of a particular objective in order to qualify as sustainable under the Social Taxonomy. It also acknowledges that it will be very challenging to establish DNSH requirements for all of the sub-objectives.

## SUBSTANTIAL CONTRIBUTION CRITERIA

Three types of substantial contribution criteria are proposed:

- **Avoiding and addressing negative impact on workers, end-users and communities:** This will target both sectors with documented human rights and labour rights abuses and also sectors that are less likely to contribute to the objectives of the European social pillar. The Platform proposes that the criteria focus on high-risk sectors under the NACE industrial classification system.
- **Enhancing the inherent positive impacts of social goods and services and basic economic infrastructure:** This will target social goods and services sectors that provide goods and services for basic human needs and basic economic infrastructure. The Platform suggests basing the relevant criteria on the concept of availability, accessibility, acceptability and quality (AAAQ).
- **Enabling activities:** This addresses economic activities which have the potential to enable a substantial contribution to be made in other activities.

## DNSH CRITERIA

As with the Environmental Taxonomy, activities making a substantial contribution to one social objective should not significantly harm other social objectives. For example, an economic activity such as the expansion of broadband in under-served areas must not harm the rights of workers building the broadband infrastructure or the living standards and well-being of consumers using the services.

It is expected that any DNSH criteria would need to operate at the level of the sub-objectives.

## MINIMUM SAFEGUARDS

The Platform has been asked to advise the European Commission on the functioning of Article 18 of the EU Taxonomy Regulation which addresses minimum safeguards and, therefore, the Platform has only issued its provisional views on the relevant minimum safeguards applicable to the Social Taxonomy.

These include that there may be a need for environmental minimum safeguards to prevent activities from being classified as socially sustainable even though they violate environmental safeguards.

## OTHER CONSIDERATIONS FOR THE SOCIAL TAXONOMY

### *Governance factors*

Under the EU Taxonomy Regulation, the Platform is also required to advise the European Commission on addressing other sustainability objectives, including social objectives.

The Platform therefore recommends the adoption of two objectives on governance which they consider to be directly related to sustainability matters as follows:

- Strengthening sustainability aspects of traditional corporate governance with the sub-objectives of sustainability-assessment skills in the highest governance body and transparency on sustainability objectives and targets. This would potentially include the inclusion of sustainability-linked remuneration although this is somewhat controversial.
- Strengthening corporate governance aspects that are important for sustainability with the sub-objectives of anti-bribery and anti-corruption measurements; responsible lobbying and political engagement; transparent and non-aggressive tax planning; diversity of board members, and the option for employee representation on supervisory boards.

The Platform believes that these governance topics are inherently linked to the entity that carries out the relevant activity and so their natural place is as part of the minimum safeguards.

### *Qualitative and quantitative metrics*

Any technical screening criteria is likely to include both qualitative and quantitative metrics and thresholds. Qualitative metrics could focus on policies and procedures of a particular company. Quantifiable information is less easy to obtain but could potentially be based on some existing metrics such as metrics on safe and healthy working conditions, anti-discrimination, freedom of association and employment generation.

### *"Significantly harmful" activities*

The Platform suggests that harmful activities for the Social Taxonomy should be those which are fundamentally and under all circumstances opposed to social objectives.

Such activities could be based on two sources: internationally agreed conventions (for instance, bans on certain kinds of weapons) and research on the detrimental social effects of certain activities (for example, tobacco).

## DISCLOSURES

In terms of substantive disclosures, the Platform thinks that disclosures should vary depending on the type of product:

- **Equity funds:** These should disclose the percentage of the fund that complies with the Social Taxonomy (including a breakdown by objectives). If the emphasis of the fund is on "enhanced products and services with inherent social benefit (supporting adequate living conditions or basic economic infrastructure)", funds should disclose the Social Taxonomy aligned turnover. Funds with the objective of "avoiding and addressing negative impacts on stakeholders" should instead disclose investments employed to avoid and address negative impacts such as ensuring that a living wage is paid.
- **Fixed income funds with corporate/social bonds:** The same disclosures as for equity funds plus a requirement to disclose the percentage of investments that are invested in social bonds which are aligned with the Social Taxonomy.
- **Issuers of social bonds:** Disclosure of why and how the underlying investments will be aligned with the Social Taxonomy and, post investment, how the proceeds have been (or are being) allocated and the extent to which they are aligned with the Social Taxonomy.
- **Social loan financiers:** Borrowers of social loans would be obliged to inform lenders on how the loans will be used and why the project financed is aligned with the Social Taxonomy.

## NEXT STEPS

If you would like further information or assistance in understanding the Final Report and its implications, please speak to your usual Travers Smith contact or any of the individuals below.

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