

Swiss Sustainable Finance consultation response to EU Commission's Draft Report on Social Taxonomy

1. Introduction and background

On 12 June 2021, the EU Commission published its [draft report on a social taxonomy](#). The report was drafted by the Social Taxonomy Subgroup and discusses the potential inclusion of social aspects within the EU taxonomy legislation. The report contains:

- An examination of the social aspects of investment;
- Explanations of the differences between the environmental and social taxonomy;
- An overview of the two dimensions of the considered social taxonomy (vertical vs. horizontal)¹, including a list of social objectives on both the vertical (page 28/29) and horizontal level (page 34);
- And some of the implications of a social taxonomy.

Both social and environmental considerations must be addressed in order to successfully deliver a sustainable finance strategy. Fundamental EU documents, such as the European Pillar² of Social Rights and the associated action plan, the European Social Charter³, the EU Charter on Fundamental Rights⁴ and the European Convention on Human Rights⁵, provide strong foundations and inspiration for a social taxonomy. The social taxonomy aims to unify and allow the classification of inherently socially beneficial activities, such as job creation, and added social benefits, such as improving access to good quality healthcare. This draft sets the stage for considerations of such a social taxonomy, but also points out contradictory opinions amongst the Social Taxonomy Subgroup members on how best to implement a social taxonomy framework and if it is fully justified to extend the Taxonomy Regulation to social objectives or rather to further these within the safeguard elements of the general already existing taxonomy.

In August 2021, the *Platform on Sustainable Finance* collected [further feedback on this draft](#).

This draft represents a work in progress and is published to gather feedback which will further inform the Platform as it continues to work on these topics, aiming to publish a Final Report later in the year.

SSF has drafted a response to the EU's 9 Questions including **feedback from its members**.

¹ The vertical dimension focuses on products and services for basic human needs and basic infrastructure. From this perspective, economic activities that make these products and services more accessible, while doing no harm to efforts to achieve other social objectives, could be considered social. The horizontal dimension takes into account impacts on different groups of stakeholders affected by economic activities – workers, including value chain workers, consumers and communities. Horizontal objectives would be likely to include a combination of entity- and activity-level criteria, crucial for ensuring businesses' respect and support for human rights as part of the social taxonomy. Specific examples are found on page 24&25 of the draft report.

² European Pillar of Social Rights: https://ec.europa.eu/info/strategy/priorities-2019-2024/economy-works-people/jobs-growth-and-investment/european-pillar-social-rights/european-pillar-social-rights-20-principles_en

³ The European Social Charter: <https://www.coe.int/en/web/european-social-charter>

⁴ European Charter of Fundamental Rights: https://ec.europa.eu/info/aid-development-cooperation-fundamental-rights/your-rights-eu/eucharter-fundamental-rights_en

⁵ The European Convention on Human Rights: https://www.echr.coe.int/documents/convention_eng.pdf

2. SSF feedback on draft report on social taxonomy

Question 1.a: Which in your view are the main merits of a social taxonomy? (multiple answers possible)

- 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
- none

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| SSF Response (1000 characters max.) | The potential implementation of a social taxonomy is very complex and through discussions in our network we realise it is difficult to draw a clear line between the vertical and the horizontal dimension. We feel that many of the listed horizontal elements are already covered by sustainability research processes, which seek to evaluate how sustainable/long term-oriented a company is and/or quantify its impact. For the vertical dimension, we feel it is not practical to measure the exact social benefit of each company in the same way green economic activity is measured, as most economic activities offer some benefit to certain stakeholders, else they wouldn't be on the market. Also, in the social sphere, there are less quantitative and often more subjective KPIs. We rather see merits in helping to define the process that should be followed (i.e. intention, goal setting, management, measurement), for an investment product to claim it seeks and succeeds in providing a social benefit. |
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Question 1.b: Which in your view are the main concerns about a social taxonomy? (multiple answers possible)

- interference with national regulations and social partners' autonomy
- increasing administrative burden for companies
- other
- none

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| SSF Response (1000 characters max.) | One concern is drawing a line between economic activities having social benefit vs. those that do not. It can be argued that any successful enterprise/product provides a social benefit, or it would not have prospered and remain on the market. We find it very important to include i.e., "job creation" within the social activities, which seems to be an assumed inherent activity NOT considered within the current proposed social taxonomy. We are very sceptical that in addition to DNSH and PASI, that a separate social taxonomy in the horizontal dimension can be efficiently and effectively implemented. This topic cannot be treated similarly as environmental/climate related economic activities as the nature of social improvements is more qualitative and localized; therefore it is harder to provide universal positive social indicators. As many judgments on values of economic activities are subjective, it will be difficult to come to a consensus of compliant activities on the vertical dimension. |
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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 characters maximum)

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| SSF Response (1000 characters max.) | <p>We feel the list of potential activities is already too extensive. Some topics overlap with environmental issues (i.e. water, clean electricity, waste management). It may be difficult to isolate these from each other and explain where the boundaries lie.</p> <p>We also want to stress that many horizontal and vertical aspects are commonly covered in ESG research processes. Hence, an alternative and more productive objective of such a social taxonomy could be to list key aspects that should be covered by ESG research/selection processes – providing guidance to market players on best practice processes, rather than creating a separate social taxonomy.</p> |
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Question 3: Which of the following activities should in your view be covered in the vertical dimension (social products and services)?

- 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.o.4 - Physical well-being activities
- Other

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| SSF Response (1000 characters max.) | We are not convinced of using NACE for social indicators. While certain sectors MAY provide benefits if serving the underserved, a sector can't be automatically classified as "social" in a taxonomy unless proven to have an added benefit to the population in question. It is subjective and on a different level than env. activities, which are more easily quantified. Also, because env. factors are often based on scientific evidence on CO2 reduction, they are less subjective than social factors. Often, investors with ESG goals, apply research to identify companies contributing to objectives on page 28/29. Yet, they look at a combination of company activity/mission and if a company considers key stakeholder needs. Such a mechanism can't be expressed by NACE; instead one needs a similar, perhaps extended list as on p. 28/29, and requires investments to link a social benefit to these issues, providing transparency on the process and results. Many actors already do so using the SDGs as a basis. |
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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: (1000 character maximum)**

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| <p>SSF Response (1000 characters max.)</p> | <p>We feel , there will be a substantial overlap with DNSH and PASI.</p> <p>We also see that similar aspects as recommended in the horizontal dimension are usually covered in ESG research processes, both for individual market players, as well as for leading ESG rating houses. For further development by the EU, it may therefore be more beneficial to, at least on the horizontal level, identify a minimum standard based on DNSH and PASI that could be applied and standardized amongst typically applied ESG research/rating processes on an entity level.</p> <p>Latest scientific evidence finds that ESG ratings on the same company level can diverge dramatically (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3438533).</p> <p>This would, in essence, mean providing guidance to market players, including rating agencies, to make their ESG assessments more focused on material points as defined by an EU consensus.</p> |
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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'?

- 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

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| SSF Response (1000 characters max.) | We think the downside of violation of human rights is covered by PASI (Principle Adverse Sustainability Impacts) and does not need to be covered in a social taxonomy. We also believe that this is also covered in article 18 on minimum social safeguards. |
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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 maximum)

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| SSF Response (1000 characters max.) | Many investors consider it best-practice for a company to link executive remuneration to environmental and social factors and hence cover this aspect already in their research processes. Yet, we would rather see it incorporated in overall guidelines for ESG research/ratings, rather than in a defined social taxonomy. |
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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: (multiple answers possible)

- 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

Other

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| SSF Response (1000 characters max.) | As described above, we do not feel that these should be elements of a social taxonomy but overall as elements of sustainability research processes, for which the EU could strive to give more guidance. |
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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 maximum)

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| SSF Response | Model 1 is not applicable because we do not think that simply defining NACE codes as creating added social impact is of practical use to financial players. We rather recommend building off existing frameworks, which are more process oriented than outcome oriented (i.e. IFC Operating Principles for Impact Investing or commonly used SDG frameworks linking investment activities to particular SDGs). The premise for model 2 is inherent in many ESG research processes currently already on the market and the DNSH criteria of the Taxonomy already in existence. As we explain in previous answers, these social aspects on an entity level are already covered by many existing tools to various degrees and therefore do not need to be separately covered within a social taxonomy but rather should be a focus of EU activities in a step to align a minimum standards for research processes. Therefore we do not think that either model as is, would serve as a basis for identifying social investments. |
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Question 9: What do you expect from a social taxonomy?

Please answer: (5000 character maximum)

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| <p>SSF Response</p> | <p>Due to the very subjective nature of identifying positive social activities, we would expect a social taxonomy to identify a clear process that investors should use when developing products with a measurable social impact that deserve an article 9 classification. Many investors have already started using the SDGs as a concrete framework to classify where their investee companies have social (as well as environmental) impacts. Work towards consolidating best practice in this area and outlining acceptable practices under the EU Action Plan, would in our view better serve the purpose.</p> <p>We feel that currently a classical social impact fund, such as a microfinance fund, which sets clear intentions to better the social situation of an area, identifies concrete social goals, and measures and manages these goals deserves to be classified as an article 9 product, but not based on economic activities or performance of the economic entity alone. The deciding factor is an assessment of the combination of the two, reflected in process that sets targets and measures outcomes or impact.</p> <p>The Taxonomy needs to match standard available definitions of social impact products as defined in your report (page 12). Most importantly, they should prove to aim for certain social goals and set measurable targets to get there. Much like that what is described by the IFC Operating Principles for Impact Management.</p> <p>Again we stress the need to look at existing frameworks as well as best-practice examples already available that have proven track records in providing social benefits. It may be beneficial to take a more bottom-up approach in this regard by identifying these best practice examples and looking at commonalities that could be used to define an EU acceptable social product.</p> |
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3. Further information

Links to important documents

Documents linked to the consultation can be found at: https://ec.europa.eu/info/publications/210712-sustainable-finance-platform-draft-reports_en

Zurich, August, 27 August 2021