ShareAction welcomes the draft report on a Social Taxonomy by the subgroup of the EU Platform for Sustainable Finance and appreciates the opportunity to submit our views. We support the direction of travel outlined in the draft support and we are pleased to see that the presented social taxonomy structure:

- is based on international human rights norms;
- makes a distinction between a vertical dimension that promotes adequate living standards and a horizontal dimension that promotes positive impacts and avoids and addresses negative impacts on affected stakeholder groups;
- recognises three groups of stakeholders most commonly impacted by business: workers, consumers and communities;
- combines entity- and activity-level criteria and pertains to impacts in the whole value chain.

The investor demand for socially oriented investment is growing and many investors we work with have already set up ways to measure social factors. But there are also barriers for investors who express their interest to invest in promoting social factors, such as the lack of data to assess social factors and how to define what good looks like. We strongly support the development of social objectives as part of the Taxonomy because this will help to address these gaps and support investors in defining what constitutes socially sustainable financial activities. This will facilitate investments that support a transition to a net zero economy that is fair and inclusive, prioritising the social needs of workers, communities, consumers and citizens. In this document we discuss why:

- investors are increasingly looking to consider social issues;
- contributions to social objectives can be measured;
- the social taxonomy will help to overcome barriers to invest in social factors;
- the social taxonomy is urgent;
- a social taxonomy is possible: addressing concerns.

**Investors are increasingly looking to consider social issues**

In our work, we have seen investor demand for socially oriented investments grow. There is an emergent recognition amongst investors of the materiality of social factors. We have seen this in the steep growth in interest in and membership of our Workforce Disclosure Initiative, Good Work Investor Coalition and Healthy Markets initiative. For example, in the five months from April to August 2021 the value of assets under management in the Healthy Markets coalition has grown by 40% to $2.5tn.

Recently introduced legislation (Sustainable Finance Disclosure Regulation and the proposed Corporate Sustainability Reporting Directive) in which environmental, social and governance factors are put on an equal footing, stimulate the interest further.

**Contributions to social objectives can be measured**

Many investors we work with have already set up ways to measure social factors, for example the proportion of healthier products sold by food retailers, or whether a company is paying the Living Wage. The challenge is not that it cannot be measured, the challenge is the absence of a broadly agreed way of measuring and comparing. This results in a lack of data to assess social factors and how to define what good looks like. For example, just 4 per cent of companies responding to the 2020 WDI survey could provide data on the ethnicity pay gap, and 32 per cent of companies could
not provide any data on whether they had identified instances on forced labour, modern slavery or human trafficking, even to say none had been identified. The social taxonomy will help in closing this data gap.

The social taxonomy will help to overcome barriers to invest in social factors

In addition to the lack of data and the challenge to define what sustainable from a social perspective looks like, engagement and research by ShareAction with investors on health shows that the status quo risks undermining health outcomes:

- vast amounts of capital remain available to the most health-damaging industries;
- investor engagement on health is piecemeal and unlikely to drive real-world impact.

This is driven by barriers that a social taxonomy could help to overcome.

While we know that investor interest around social issues has increased, the level of knowledge and expertise within the financial sector is just catching up. Investor and company best practice around workforce and human rights issues - and their prevention and remedy - is not well understood.

We therefore wholeheartedly agree that a social taxonomy is needed to:

- help more investors invest socially responsibly by defining what socially sustainable looks like. This will also allow investors to reduce the in-house resources/ expertise needed to do so;
- improve the awareness of the intricacies, systemic importance and connected nature of social and workforce issues, re-focusing investor attention from climate change solely;
- enable forward looking and robust risk assessments, the mitigation of those abuses and the proper market valuation of companies that participate in them e.g. lower P/E ratio, increased cost of capital, lower ROCE, lower ESG ratings. This addresses the challenge of social issues only materializing financially after the fact, such as companies that partake unfair worker treatment in the market e.g. lower costs (higher margins and operating profit) the proliferation of workforce malpractice.

The social taxonomy is urgent

Due to the urgency of driving the social change that is needed, we would like to stress the importance of not delaying the introduction of the social taxonomy. Starting the development of the social taxonomy in 2022, will most probably mean that it will not be applied before 2025. This allows for a development of the social taxonomy in coherence with other legislation, such as the Corporate Sustainability Reporting Directive and the Sustainable Corporate Governance initiative. A further delay would jeopardize the EU commitments towards achieving the SDGs.

A social taxonomy is possible

We also believe it is realistic to develop social objectives as part of the Taxonomy. First of all, we think it is **possible to define activities as socially sustainable** in a positive way or negative way, by basing the social taxonomy on internationally agreed standards, such as the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. These standards have already been incorporated in industry frameworks and public policies and regulations around the world. Similar to the environmental taxonomy, these standards may at times go beyond certain legal standard in different countries, this is why the social taxonomy does not prohibit investment or block funding in any activity.
Similarly, the social taxonomy does not go beyond EU competences; it only provides for a clearer definition of what could be considered socially sustainable in line with these internationally agreed standards. Furthermore, it facilitates investors’ duties to report their contribution to certain social factors under the Sustainable Finance Disclosure Directive.

We recognise that care must be taken to make sure that criteria do not favour companies located in jurisdictions with more stringent social legislation. We think however that the likelihood of the social taxonomy having that effect is small for various reasons:

- the broad approach of the proposed taxonomy, that includes social economic activities like social housing, healthcare and education as well as efforts to reduce negative and maximise positive outcomes for affected stakeholders, allows for a broad range of companies and business activities to become social taxonomy compliant;
- in addition, it cannot be assumed that standards in certain jurisdictions are higher across the board. In case of the horizontal dimension, it can be assumed that the vast majority of companies – through their value chains- cover a broad range of jurisdictions. Therefore, companies cannot easily be favored;
- there will always be interest in investing into emerging markets as they tend to offer higher growth opportunities (higher risk / higher return) and inexpensive valuations relative to their growth prospects than the more mature ones. They are a fundamentally different asset class and have a different investment profile. Investors will include them for diversification purposes too;
- it could be considered to work with split-definition based on geo-economic position. There are examples of ESG ratings that have different criteria in developed/developing markets to enable a 'good score', such as the FTSE4Good indexing process.