SUBMISSION

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BSR Submission to EU Social Taxonomy Process

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Business for Social Responsibility (BSR) welcomes the EU's efforts to advance sustainable finance, and we support the mandate given by the European Commission to the Platform on Sustainable Finance to ensure that vital social aspects of sustainability are integrated into the EU's Taxonomy Regulation.

BSR works with business to create a just and sustainable world. BSR's team of sustainable business experts works with 250+ member companies and other partners from civil society and government to enable business to develop ambitious strategies and translate them into action that builds resilience, drives innovation, and delivers value for business and society. For 25 years, BSR has been at the forefront of helping companies turn human rights principles into practice. We have developed key insights into how to integrate social considerations, including respect for human rights, into broader business strategies, processes, and plans.

We believe that meaningful integration of social considerations into the EU's broader financial sustainability efforts is crucial for ensuring the truly just and sustainable outcomes needed to achieve the ambitious goals of the 2030 Sustainable Development Agenda and the climate goals set out in the Paris Climate Agreement. Our experience with business indicates that a robust environmental and social taxonomy is necessary to ensure investors and their portfolio companies effectively consider and act on sustainability risks and opportunities affecting people and the planet. We therefore take this opportunity to provide feedback on the draft Social Taxonomy report and highlight the following key points for consideration:

1. ***Socially sustainable business practices must be grounded in international human rights standards and relevant frameworks***

We are pleased to see a clear recognition that human rights are essential for achieving sustainable business and investment goals. We are particularly encouraged to see the that the draft report is grounded in international human rights and labor rights instruments, the UN Guiding Principles on Business and Human Rights (UNGPs), and the OECD Guidelines for Multinational Enterprises. These standards and frameworks provide a globally authoritative framework for advancing sustainable finance within Europe and beyond.

The UNGPs in particular have become the universal standard guiding business responsibility to respect human rights. This broad consensus has given companies across sectors – along with governments and civil society – a shared roadmap for respecting human rights and a common language for articulating this goal. This has formed the basis for increased transparency on human rights performance through benchmarking and reporting. These shared expectations have also enabled corporate actors to drive internal change and have spurred the development of the architecture needed to prevent, mitigate, and remedy human rights harms, including a growing number of human rights policies, due diligence procedures, grievance mechanisms, and dedicated staff.

2. ***The proposed two-dimensional structure reflects the multiple ways in which business can contribute to sustainable development***

We also welcome the proposal to adopt both vertical and horizontal dimensions as a means of highlighting the diverse role business can play in contributing to social and human rights objectives. This includes through the provision of basic goods, but also by systematically addressing the real and potential negative impacts of business activities on affected stakeholder groups. This broader scope, grounded on the principle of 'do no significant harm', will help incentivize a greater portion of the economy to mobilize in support of addressing negative externalities associated with business activities across value chains.

3. ***Compliance with "minimum safeguards" must involve proactive and ambitious corporate due diligence***

The corporate responsibility to respect human rights risks being interpreted by some businesses as a "do no harm" compliance exercise rather than a proactive, governance-based approach to managing actual or potential adverse impacts. Fulfilling the responsibility to respect human rights most often involves a significant change management process to meaningfully embed human rights in a company's culture, business model, and core business activities. Fulfilling the expectations set out by the UNGPs and the OECD Guidelines also requires using and increasing leverage to help transform global value chains in support of human rights. As a result, it is essential that the Social Taxonomy makes clear that meeting minimum safeguards entails going beyond a compliance-based approach to one that involves exercising transformative forms of leverage to ensure sustainable and rights-respecting global value chains.

4. ***Corporate governance is necessary for tackling sustainability challenges***

We welcome the inclusion of corporate governance criteria under the horizontal dimension (good sustainable corporate governance and transparency and non-aggressive tax planning). How companies are governed and managed represents a root cause of unsustainable business practices. Addressing corporate governance and ensuring adequate oversight can help ensure sustainable business practices are meaningful and embedded across all business units rather than limited to a company's sustainability function. We have seen how the uptake and implementation of the UNGPs by business is hindered by insufficient support from company leadership as well as unclear accountability for the management of human rights risks and the achievement of positive human rights outcomes.

At the same time, human rights risks are business risks that can materially impact a company's financial performance and opportunities for sustainable value creation. Accordingly, how companies and their boards provide oversight and management of human rights practices warrants due attention among investors as a matter of investment analysis, valuation, and engagement with companies.

5. ***Model 2 offers a more comprehensive approach to sustainable business and investment***

While we recognize that proposed models 1 and 2 each have important merits, Model 2 offers a more comprehensive and cohesive approach to sustainability that helps ensure that capital is diverted to activities that are significantly more sustainable, both socially and environmentally. Also, channeling capital to activities that only superficially meet minimum safeguards risks undermining the potentially transformative role finance can have in meeting sustainability goals. In addition to helping further cement a coherent approach to sustainability seen among leading companies, Model 2 may more readily address a key challenge in the sustainable finance space: widespread siloing of environmental, social, and governance (ESG) criteria among institutional investors and their ecosystem. By aggregating ratings across E, S, and G factors, investors may label companies as strong ESG performers due to their high ranking on environmental criteria, despite the same companies contributing to significant human rights harms on social criteria. Such practices not only impede meaningful process on social sustainability, they also risk undermining the credibility of ESG or sustainable investing among consumers of financial products.

6. ***Ensure the social taxonomy is coherent with other EU standards***

A key challenge for business' ability to fulfill growing societal expectations is the widespread proliferation of often inconsistent or contradictory regulatory frameworks and responsible business conduct standards. This is true at the national level as well as the regional and international levels. Principle 10 of the UNGPs recognizes that "Greater policy coherence is…needed at the international level, including where States participate in multilateral institutions that deal with business related issues, such as international trade and financial institutions." We therefore encourage the European Union to ensure alignment between the various existing and forthcoming regulatory developments, such as the Sustainable Finance Disclosure Regulation, the updated Non-Financial Reporting Directive, the European Directive on Sustainable Corporate Governance, and the Mandatory Human Rights and Environmental Due Diligence Law. This should be done in a way that helps harmonize standards and sets clear, consistent expectations for businesses such as these efforts facilitate business compliance, avoid duplication of efforts, and allow for the optimal use of businesses' resources to achieve intended sustainability outcomes.