

August 30, 2021

Platform on Sustainable Finance  
European Commission  
1049 Brussels, Belgium



Japanese Bankers Association

## **JBA comments on the Platform on Sustainable Finance's draft report on social taxonomy**

Dear Sirs/Madams:

The Japanese Bankers Association<sup>1</sup> (JBA) appreciates the opportunity to provide comments on the Platform on Sustainable Finance's draft report on social taxonomy<sup>2</sup> on July 12, 2021.

We hope that our comments will contribute to further discussions at the Platform.

### **General Comments**

We welcome this report, which contributes to the promotion of social investment and the achievement of the SDGs. The social aspect is as important as the environmental aspect and we respect the EU has led the social-related discussions.

In view of the growing investor need to address the difficulty of measuring and analyzing the social factors to be incorporated in their investment decisions, it is useful to develop a social taxonomy with common terms and definitions for social objectives in order to mobilize capital for economic activities that contribute to the improvement of the standard of living respecting human rights.

A social taxonomy could also be used as a tool for passing on incentives. If a loan that is extended meets certain thresholds or criteria as defined in the taxonomy, both the investor and the financial institution could obtain some sort of incentives (e.g. tax reduction, capital allocation reduction).

However, as social objectives, including respect and support for human rights are global concept not only for the EU, the social taxonomy should be consistent with the definitions and standards of social objectives of other global initiatives, such as International Capital Market Association (ICMA) Social Bond Principles and Loan Market Association (LMA) Social Loan Principles. The risk to have a misalignment could create gaps and confusion for all investors willing to avoid any greenwashing.

On the other hand, science cannot be used as criteria for social taxonomy. It is then difficult to establish quantitative measurement criteria and there is greater data gap than in climate change area. Therefore, we believe that it is preferable to allow flexibility in criteria for social taxonomy rather than making them too strict and complicated in order to avoid impeding innovation and creativity and to support initiatives in private sectors. Also, the criteria should regularly be reviewed and updated.

In addition, as similar issue to environmental taxonomy, in order for banks to comply with the disclosure requirements related to social taxonomy, it is necessary to enhance disclosures of recipients of the funds.

In particular, in the case of corporate loans which are not linked to specific social projects, in order for banks to ensure accurate disclosures, it is necessary to require borrowers to provide information on the use of funds to banks.

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<sup>1</sup> The Japanese Bankers Association is the leading trade association for banks, bank holding companies and bankers associations in Japan. As of August 30, 2021, JBA has 114 Full Members (banks), 3 Bank Holding Company Members (bank holding companies), 74 Associate Members (banks & bank holding companies), 58 Special Members (regionally-based bankers associations) and one Sub-Associate Member for a total of 250 members. Several of its largest member banks are active participants in the EU financial markets.

<sup>2</sup> [https://ec.europa.eu/info/publications/210712-sustainable-finance-platform-draft-reports\\_en](https://ec.europa.eu/info/publications/210712-sustainable-finance-platform-draft-reports_en)

[Specific Comments]

	Question	Answer
1.1	Which in your view are the main merits of a social taxonomy?	<ul style="list-style-type: none"> <li>• supporting investment in social sustainability and a just transition</li> <li>• responding to investors’ demand for socially orientated investments</li> <li>• addressing social and human rights risks and opportunities for investors</li> <li>• strengthening the definition and measurement of social investment</li> </ul>
	Please specify to what other merit(s) you refer in your answer to question 1.1:	—
1.2	Which in your view are the main concerns about a social taxonomy?	<ul style="list-style-type: none"> <li>• interference with national regulations and social partners’ autonomy</li> <li>• increasing administrative burden for companies</li> <li>• other</li> </ul>
	Please specify to what other concern(s) you refer in your answer to question 1.2:	Difficulty in which social aspects should be including in social taxonomy, and difficulty in measuring the effectiveness/positive impacts
2	In your view, are there other objectives that should be considered in vertical or horizontal dimension?	<ul style="list-style-type: none"> <li>• No</li> </ul>
	Please explain your answer to question 2:	<p>Objectives are already so broadly defined that the current proposal is sufficient, i.e. promoting adequate living standards for vertical, promoting positive impacts, avoiding and addressing negative impacts on affected stakeholder groups horizontal dimension.</p> <p>However, the horizontal and vertical construct is already quite complex conceptually, so care should be taken to not further complicate the framework.</p> <p>Is our understanding correct that vertical social taxonomy is a common understanding including basic social/human needs, and the horizontal social taxonomy means a measure or complement for achieving the vertical taxonomy?</p>
3	Which of the following activities should in your view be covered in the vertical dimension (social products and services)?	<ul style="list-style-type: none"> <li>• A1 - Crop and animal production,</li> <li>• A1.1 - Growing of non-perennial crops</li> <li>• A1.2 - Growing of perennial crops</li> <li>• A1.4 - Animal production</li> <li>• A3 - Fishing and aquaculture</li> <li>• C10 - Manufacture of food products</li> <li>• C13 - Manufacture of textiles</li> <li>• C20.1.5 - Manufacture of fertilisers and nitrogen compounds</li> <li>• C20.2 - Manufacture of pesticides and other agrochemical products</li> <li>• C21 - Manufacture of basic pharmaceutical products and pharmaceutical preparations</li> <li>• C23.5 - Manufacture of cement, lime and plaster</li> <li>• C25.2.1 - Manufacture of central heating radiators and boilers</li> <li>• C30.1 - Building of ships and boats</li> <li>• C30.2 - Manufacture of railway locomotives and rolling stock</li> <li>• C30.3 - Manufacture of air and spacecraft and related machinery</li> <li>• C30.9.2 - Manufacture of bicycles and invalid carriages</li> <li>• C31 - Manufacture of furniture</li> </ul>

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	<ul style="list-style-type: none"> <li>• C32.5 - Manufacture of medical and dental instruments and supplies</li> <li>• D35.1 - Electric power generation, transmission and distribution</li> <li>• D35.3 - Steam and air conditioning supply</li> <li>• E - Water supply; sewerage; waste management and remediation activities</li> <li>• E36 - Water collection, treatment and supply</li> <li>• E37 - Sewerage</li> <li>• E38 - Waste collection, treatment and disposal activities; materials recovery</li> <li>• E38.3 - Materials recovery</li> <li>• E39 - Remediation activities and other waste management services</li> <li>• F41 - Construction of buildings</li> <li>• F42.1 - Construction of roads and railways</li> <li>• F42.1.2 - Construction of railways and underground railways</li> <li>• F42.2.2 - Construction of utility projects for electricity and telecommunications</li> <li>• F43.3 - Building completion and finishing</li> <li>• G45.2 - Maintenance and repair of motor vehicles</li> <li>• H49.1 - Passenger rail transport, interurban</li> <li>• H49.2 - Freight rail transport</li> <li>• H49.3 - Other passenger land transport</li> <li>• H49.3.1 - Urban and suburban passenger land transport</li> <li>• H50.1 - Sea and coastal passenger water transport</li> <li>• H50.3 - Inland passenger water transport</li> <li>• H51.1 - Passenger air transport</li> <li>• J58.1 - Publishing of books, periodicals and other publishing activities</li> <li>• J59.1 - Motion picture, video and television programme activities</li> <li>• J60 - Programming and broadcasting activities</li> <li>• K - Financial and insurance activities</li> <li>• L68.2 - Renting and operating of own or leased real estate</li> <li>• M71 - Architectural and engineering activities; technical testing and analysis</li> <li>• M72.1.1 - Research and experimental development on biotechnology</li> <li>• N77.1.1 - Renting and leasing of cars and light motor vehicles</li> <li>• N77.2 - Renting and leasing of personal and household goods</li> <li>• N78.1 - Activities of employment placement agencies</li> <li>• N78.2 - Temporary employment agency activities</li> <li>• N78.3 - Other human resources provision</li> <li>• O84.1.2 - Regulation of the activities of providing health care, education, cultural services and other social services, excluding social security</li> <li>• O84.2 - Provision of services to the community as a whole</li> <li>• O84.2.4 - Public order and safety activities</li> </ul>

	Question	Answer
		<ul style="list-style-type: none"> <li>• O84.2.5 - Fire service activities</li> <li>• O84.3 - Compulsory social security activities</li> <li>• P85.1 - Pre-primary education</li> <li>• P85.2 - Primary education</li> <li>• P85.2.0 - Primary education</li> <li>• P85.3 - Secondary education</li> <li>• P85.3.2 - Technical and vocational secondary education</li> <li>• P85.4.2 - Tertiary education</li> <li>• Q - Human health and social work activities</li> <li>• Q86.1 - Hospital activities</li> <li>• Q86.2 - Medical and dental practice activities</li> <li>• Q87 - Residential care activities</li> <li>• Q88 - Social work activities without accommodation</li> <li>• Q88.9.1 - Child day-care activities</li> <li>• Q88.9.9 - Other social work activities without accommodation n.e.c.</li> <li>• R - Arts, entertainment and recreation</li> <li>• S95 - Repair of computers and personal and household goods</li> <li>• S96.0.4 - Physical well-being activities</li> <li>• Other</li> </ul>
	Please specify to what other activity(ies) you refer in your answer to question 3:	<p>Other- Disaster prevention</p> <p>The vertical dimension should include wider range of economic activities not only in sectors listed in the sub-objectives but also in sectors which may have a positive impact on social objectives. We do not agree to have a limited list of eligible activities for vertical dimension.</p>
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?	<ul style="list-style-type: none"> <li>• Yes</li> </ul>
	Please explain your answer to question 4:	Because of the wide scope of activities potentially included, there could be a variety of companies providing these services not as their primary business. Therefore we can see value in also adding an economic entity criteria.
5	Based on these assumptions, would you consider certain of the following activities as 'socially harmful'?	<ul style="list-style-type: none"> <li>• A1.1.5 - Growing of tobacco</li> <li>• B5 - Mining of coal and lignite</li> <li>• C12 - Manufacture of tobacco products</li> <li>• C25.4 - Manufacture of weapons and ammunition</li> <li>• C25.4.0 - Manufacture of weapons and ammunition</li> <li>• C30.4 - Manufacture of military fighting vehicles</li> <li>• G46.3.5 - Wholesale of tobacco products</li> <li>• G47.1.1 - Retail sale tobacco predominating</li> <li>• Other</li> </ul>

	Question	Answer
	Please specify to what other activity(ies) you refer in your answer to question 5:	<p>One example is gambling activities. In addition to establishing the minimum list of harmful activities for social objectives, standards based on the global principles/standards should be used to classify the activities which have significant social risks or impacts, for example:</p> <ul style="list-style-type: none"> <li>A) Illegal transactions and transactions for illegal purposes</li> <li>B) Transactions which violate public order and good morals</li> <li>C) Transactions that negatively impact wetlands designated under the Ramsar Convention</li> <li>D) Transactions that negatively impact UNESCO designated World Heritage Sites</li> <li>E) Transactions violating the Convention on International Trade in Endangered Species of Wild Fauna and Flora (Washington Convention)</li> <li>F) Transactions involving the use of child labor or forced labor</li> </ul>
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?	<ul style="list-style-type: none"> <li>• Yes</li> </ul>
	Please explain your answer to question 6:	<p>It is difficult for companies to make commitments to focus on non-financial metrics, but incorporating ESG factors in the process to determine executive remuneration is very beneficial from a governance perspective to enhance ESG awareness/initiatives and demonstrate the level of importance placed on the factor by management.</p> <p>However, it is still difficult to estimate the amount of senior management remuneration linked to environmental and social factors due to data quality issues, and the extent/impact of environmental and social factors may differ from industry to industry.</p>
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:	<ul style="list-style-type: none"> <li>• Sustainability competencies in the highest governance body</li> <li>• Diversity of the highest governance body (gender, skillset, experience, background), including employee participation.</li> <li>• Transparent and non-aggressive tax planning</li> <li>• Diversity in senior management (gender, skillset, experience, background)</li> <li>• Executive remuneration linked to environmental and social factors in line with companies' own targets</li> <li>• Anti-bribery and anti-corruption</li> <li>• Responsible auditing</li> </ul>
	Please specify to what other governance topic(s) you refer in your answer to question 7:	—
8	Which model for extending the taxonomy to social objectives do you prefer?	Don't know / no opinion / not applicable
	Please explain your answer to question 8:	<p>Considering the Pros and Cons of both Models, it is difficult to support either of them at this stage. Especially, the following points should be discussed prior to choose the Model.</p> <p>While Model 1 is aligned with the objective to attract sustainable investment capital from private sectors, it is important to keep the balance that negative environmental/social impacts will exceed the positive social/environmental impacts. Continuous examination is necessary.</p> <p>While Model 2 has fewer contradiction that the requirements for negative environmental aspects will be relaxed because they are socially needed (or vice versa), there are concerns that setting too rigid DNSH standards will lead less qualified entities/activities. Continuous examination is necessary on DNSH standards which should be commonly considered for both</p>

	Question	Answer
		socially and environmentally sustainable activities.
9	What do you expect from a social taxonomy?	<p>In view of the growing investor need to address the difficulty of measuring and analyzing the social factors to be incorporated in their investment decisions, it is useful to develop a social taxonomy with common terms and definitions for social objectives in order to mobilize capital for economic activities that contribute to the improvement of the standard of living respecting human rights.</p> <p>A social taxonomy could also be used as a tool for passing on incentives. If a loan that is extended meets certain thresholds or criteria as defined in the taxonomy, both the investor and the financial institution could obtain some sort of incentives (e.g. tax reduction, capital allocation reduction).</p> <p>However, as social objectives, including respect and support for human rights are global concept not only for the EU, the social taxonomy should be consistent with the definitions and standards of social objectives of other global initiatives, such as International Capital Market Association (ICMA) Social Bond Principles and Loan Market Association (LMA) Social Loan Principles. The risk to have a misalignment could create gaps and confusion for all investors willing to avoid any greenwashing.</p> <p>On the other hand, science cannot be used as criteria for social taxonomy. It is then difficult to establish quantitative measurement criteria and there is greater data gap than in climate change area. Therefore, we believe that it is preferable to allow flexibility in criteria for social taxonomy rather than making them too strict and complicated in order to avoid impeding innovation and creativity and to support initiatives in private sectors. Also, the criteria should regularly be reviewed and updated.</p> <p>In addition, as similar issue to environmental taxonomy, in order for banks to comply with the disclosure requirements related to social taxonomy, it is necessary to enhance disclosures of recipients of the funds.</p> <p>In particular, in the case of corporate loans which are not linked to specific social projects, in order for banks to ensure accurate disclosures, it is necessary to require borrowers to provide information on the use of funds to banks.</p>
	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.	—

(End)