

# 9th Conference on the Banking Union Enabling markets “S” and “G”

22 September 2022



# The Principles for Responsible Investment

Investor-led, supported by the United Nations since 2006

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice.

Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions.

- 1 We will incorporate ESG issues into investment analysis and decision-making processes.
- 2 We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4 We will promote acceptance and implementation of the Principles within the investment industry.
- 5 We will work together to enhance our effectiveness in implementing the Principles.
- 6 We will each report on our activities and progress towards implementing the Principles.

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**UN PARTNERS:**  
UNEP FINANCE INITIATIVE  
UN GLOBAL COMPACT



5000+

**SIGNATORIES:**  
ASSET OWNERS  
INVESTMENT MANAGERS  
SERVICE PROVIDERS



120+

**US\$ trn**  
ASSETS UNDER  
MANAGEMENT



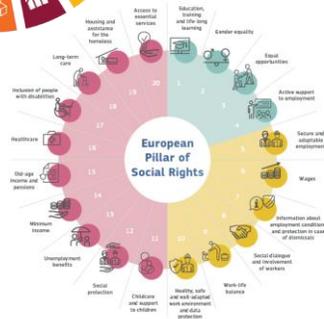
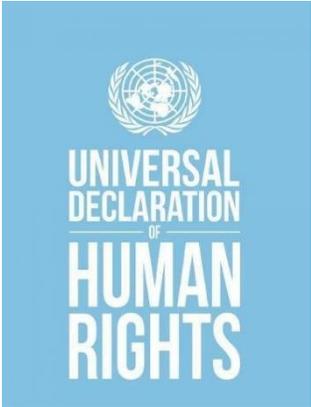
# Enabling markets on the “S” and the “G”

1. Regulation in markets is on the “S” and “G” is already in place and moving fast
  - “S” and “G” matter in their own right
2. The “S” is an enabler of environmental transitions and prosperity rather than an inhibitor
  - But different regulatory responses are needed
3. Our understanding of investors interests is changing
  - Investing for sustainability impact as instrumental to financial return

# Background: “E” vs “S” – evidence and data is available on both



“E”: Evidence & science-based



Based on international norms, principles and goals



“S”: Evidence & data-based

# Background: What is done and how it is done

Processes in companies to respect stakeholders' rights

Social products and services based on the concept of the right to an adequate standard of living.

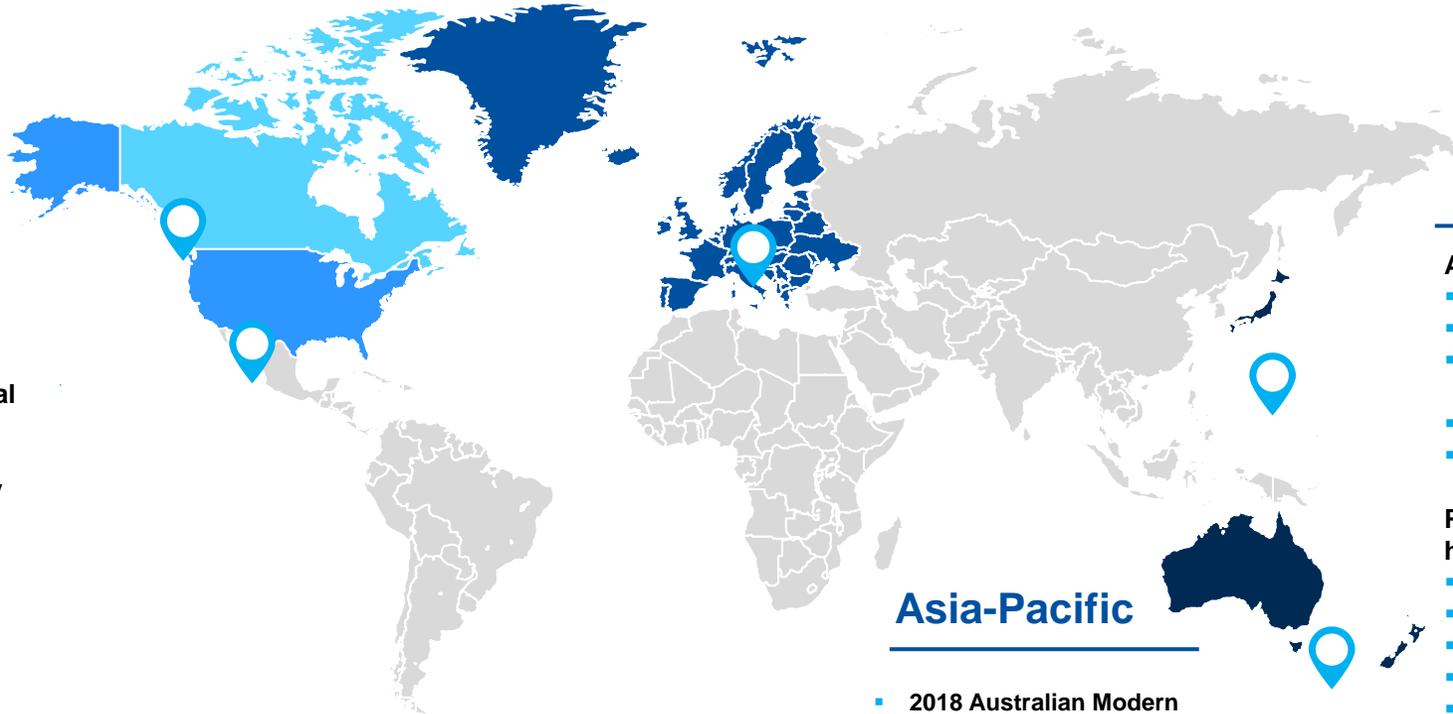
# 1. Legislation on Human Rights and Social Issues

## Canada

- 2020 Modern Slavery legislation (Bill S-211)
- 2021 United Nations Declaration on the Rights of Indigenous Peoples Act (Bill C-15)

## USA

- 2020 SEC Human Capital Disclosures
- 2010 California Transparency in Supply Chain Act
- US Dodd-Frank Act on conflict-minerals
- US Tariff Act
- Uyghur Forced Labor Prevention Act



## Europe

### Adopted:

- 2015 UK Modern Slavery Act
- 2017 France Duty of Vigilance Law
- 2018 The Netherlands Child Labour Due Diligence Law
- 2021 Germany Supply Chain Law
- 2021 Norway Transparency Act

### Proposed legislation on mandatory human rights due diligence in:

- EU (deforestation and forced labour)
- Switzerland
- Netherlands
- Germany
- Belgium
- Italy
- Finland
- Sweden

### Proposed EU regulation prohibiting products made with forced labour

## Asia-Pacific

- 2018 Australian Modern Slavery Act
- *Proposed:* New Zealand Modern Slavery Law

\*This includes proposed legislations on Corporate Sustainability Due Diligence, regulation on deforestation-free products, and forced labour import ban

# Why is the “S” and “G” relevant to market regulation?



# Overview of country specific regulatory changes - EU

## EU Corporate Sustainability Due Diligence proposal

- Proposed requirements expected to be adopted in summer 2023, on due diligence, transition plans, executive remuneration and director's duties for large EU and non-EU companies operating in the EU.

## Sustainable Finance Disclosure Regulation (SFDR) and EU Taxonomy Regulation (TR)

- Platform on Sustainable Finance report on minimum safeguards expected in mid October, clarifying how to assess alignment with OECD Guidelines and UNGPs.
- SFDR definition of “sustainable investment” includes contribution to social objectives and a requirement that investee companies follow “good governance practices”.

## EU CSRD and European Sustainability Reporting Standards

- CSRD reached provisional agreement in June, and 1st set of ESRS expected to be adopted next June. Reporting (including social and governance issues) to begin in 2025.

## European Commission proposal for a regulation prohibiting products made with forced labour

- Proposal expected to be adopted before Q1 2024

# Regulatory changes around the world

## UK Human Rights Due Diligence and Pensions schemes consideration of social issues

- The Department for Work and Pensions (DWP) has launched a dedicated Taskforce to address the S in ESG investing, whilst identifying reliable data and metrics (based on the DWP's own [position](#)).

## Australia modern slavery legislation and update

- The Modern Slavery Act 2018 requires large businesses in Australia to report annually on how they address slavery risks in their domestic and global operations, as well as their supply chains.

## Canada legislations on indigenous people and forced labour

- C-15 UNDRIP - provisions requiring states to obtain "free, prior and informed consent" in consultation with Indigenous people. Will shape Canadian business and natural resource development.

## US SEC human capital disclosure

- Rule expected from October 2022.

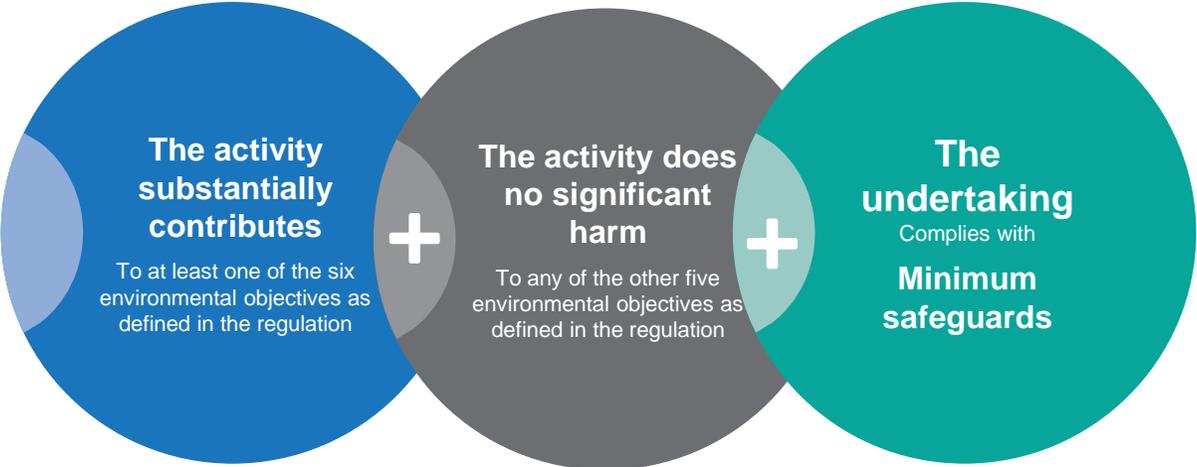
## Embedding social disclosures in China's carbon neutrality framework

- PRI issued recommendations to policymakers aiming to address social issues during climate transition through corporate social disclosures.

# What do these regulations tell us about policy objectives and progress regulating the “S” and the “G”?

- Need for stronger requirements on companies, and better information for investors.
- Moving from voluntary disclosures towards mandatory Due Diligence regulation - in line with UN Guiding Principles and OECD Guidelines, as supported by the G7 last June.
- International human rights standards are relevant for financial institutions too, and we've seen the first examples of financial regulation incorporating them in the EU (SFDR and min safeguards).
- A lack of regulatory clarity for the financial sector in allocating capital to support the delivery of public or social goods. (*More on this shortly*)
- Regulators should **ensure coherence and alignment** between national and international instruments (e.g. French “Duty of Vigilance” law, Norway’s Transparency Act, EU’s approach to Corporate Social Responsibility, minimum safeguards of the EU Environmental Taxonomy) and between **financial regulation, corporate disclosure standards** and **Due Diligence regulation**.

# Translating rights into the Taxonomy - minimum safeguards



**Minimum Safeguards = UN Guiding Principles, OECD Guidelines, ILO fundamental principles and rights at work, International Bill of Human Rights**

# Minimum safeguards build on internationally agreed frameworks

UN Guiding Principles on Business and human Rights  
ILO fundamental principles and rights at work

- 1. Human Rights**
  - Workers' Rights
  - Consumers' Rights
  - Rights of communities

OECD Guidelines

- 2. Bribery and Corruption**
- 3. Taxation (tax fraud and tax avoidance)**
- 4. Fair competition**

# The six steps at the heart of minimum safeguards

FIGURE 1. DUE DILIGENCE PROCESS & SUPPORTING MEASURES

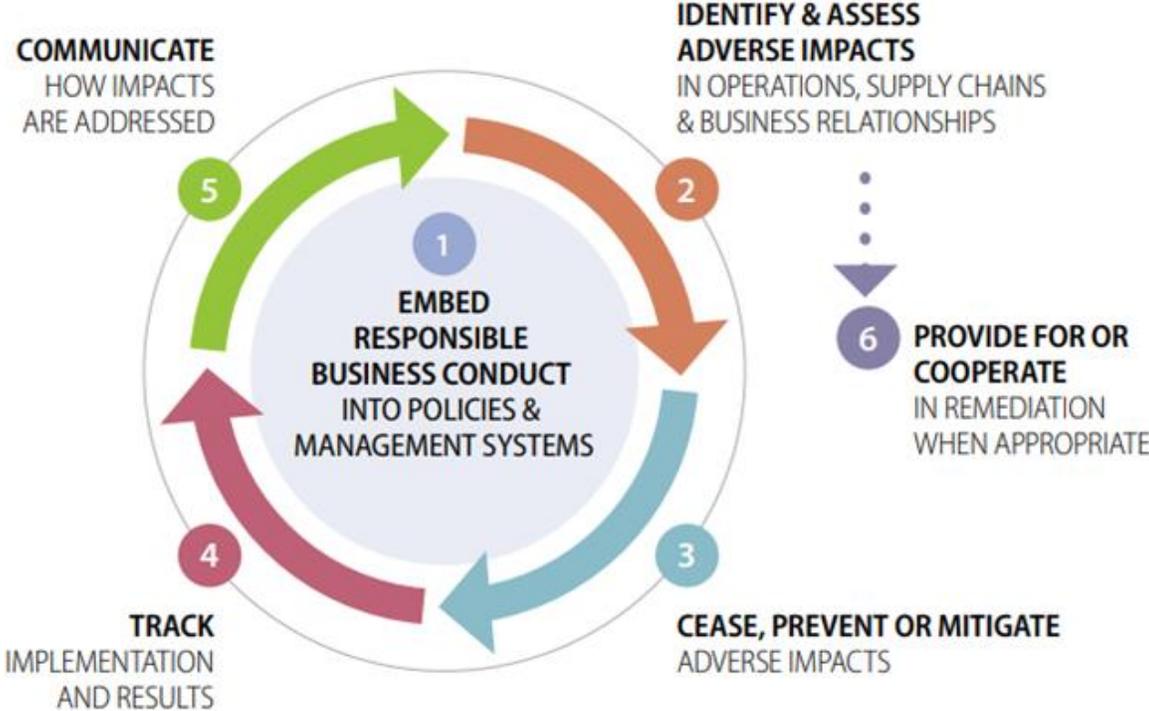


Figure: OECD DUE DILIGENCE GUIDANCE FOR RESPONSIBLE BUSINESS CONDUCT, p 6

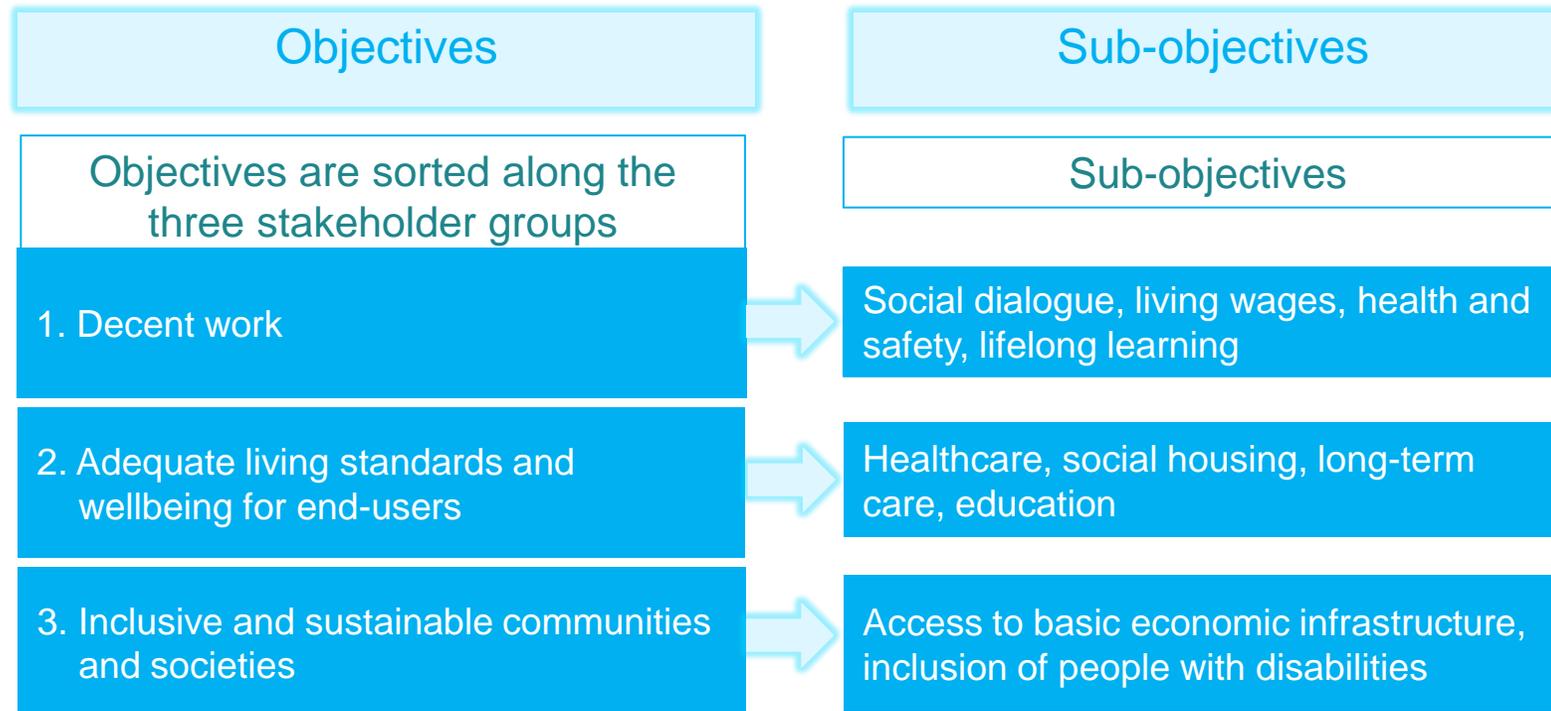
# Regulatory interlinkages: Six steps in the CSDDD

	OECD/UNGP requirements	CSDDD proposal
1	Embedding a commitment to RBC into policies and procedures	Art 5: integrating due diligence into companies' policies
2	Identification and assessment of adverse impacts, including through stakeholder engagement	Art 6: Identifying actual and potential adverse impacts
3	Taking actions to cease, prevent, and mitigate adverse impacts	Art 7. & 8.: Preventing potential impacts and bringing actual impacts to an end
4	Track implementation effectiveness	Art 10: monitoring
5	Communicate	Art. 11: Communicating (CSRD reference)
6	Remediation, including the establishment of a grievance mechanism	Art. 9. Complaints procedure + Art. 20: sanctions + Art. 22. Civil liability

## Regulating the “G”

- **Aggregating UNGP and OECD MNE Guidelines leaves three topics beyond Human and Labour Rights:**
  - Bribery/corruption
  - Taxation
  - Fair Competition
- **OECD MNE Guidelines provide requirements**
- **ESRS will provide the data**

## 2. The “S” as an enabler - identify the social objectives



# Types of substantial contribution to the social objectives

## 1. AVOIDING AND ADDRESSING NEGATIVE IMPACT

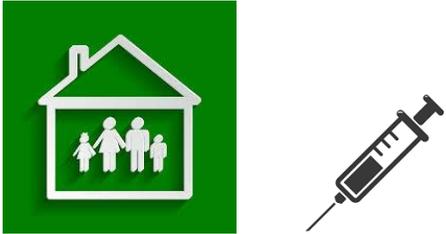
Activities in sectors with high social risks which need to be addressed by adequate processes in companies



The image contains two icons. On the left is the 'Living Wage Employer' logo, which consists of a blue circle with the text 'Living Wage' in white and 'Employer' in a smaller font below it, overlaid on a yellow and orange circle. To the right is a black icon of a wrench and a pencil crossed at their tips.

## 2. ENHANCING THE POSITIVE IMPACT INHERENT IN ECONOMIC ACTIVITY

Activities which contribute to reductions in the number of people without access to products and services to meet basic human needs



The image contains two icons. On the left is a green square icon with a white outline of a house and a family of four (two adults and two children) inside. On the right is a black icon of a medical syringe.

# Types of substantial contribution to social objectives

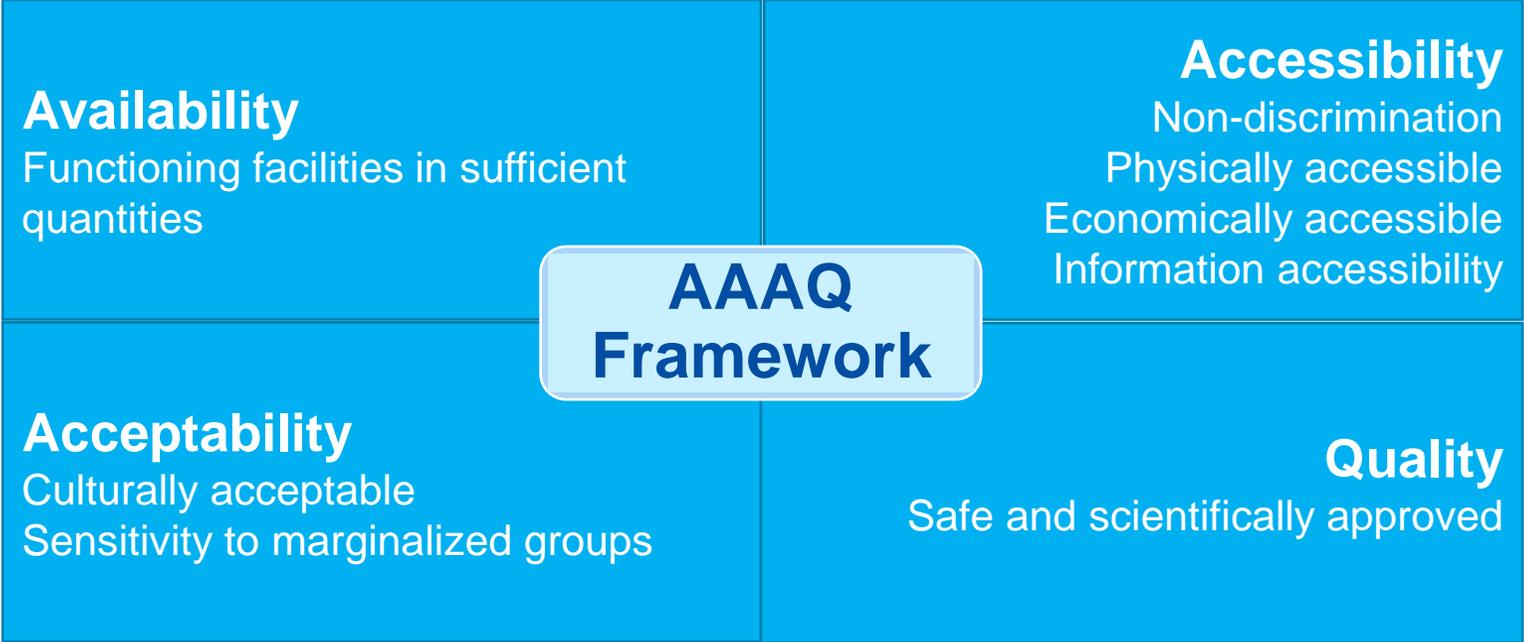
## “ADDRESSING NEGATIVE IMPACT”

- Losing jobs:
  - Sectors negatively affected by the green transition or digitization with risks of layoffs and therefore a special need to train certain groups of employees;
- Wages below “living wage”:
  - Sector exposed to great international competition (e.g. textiles).
  - Sectors exposed to social dumping (e.g. agriculture)
  - Labour-intensive sectors with little added value
- Focus on expenditures companies make to alleviate these risks

## “ENHANCING POSITIVE IMPACT”

- Sectors providing products and services for basic human needs – e.g., water, housing, healthcare including long-term care, digital infrastructure
- Situations where goods and services for basic human needs and basic economic infrastructure:
  - are not met;
  - are not accessible to certain target groups; or
  - are in danger of not being met in the future (for example, because finance for maintenance is lacking).
- Focus on turnover companies make with these products and services

# What to incentivise: Enhancing the positive impact inherent in economic activity



# What to incentivise: How to implement the targets

	<b>Objective</b>	<p>Adequate living standards and wellbeing for end-users Less people without adequate housing</p>
	<b>Activity</b>	<p>NACE Code 41.20 Construction of residential and non-residential buildings</p>
	<b>Substantial Contribution</b>	<p>Improve availability (examples) Availability of flats for low income and disadvantage categories Improve accessibility (examples) Flats having a cheaper rent than average in the region Fostering access for vulnerable groups</p>
	<b>Do no significant harm (DNSH)</b>	<p>Inclusive and sustainable communities and societies - guarantee acceptability</p> <ul style="list-style-type: none"> <li>• Flats must respect the cultural heritage</li> </ul> <p>Adequate living standards and wellbeing for end-users - guarantee quality</p> <ul style="list-style-type: none"> <li>• Flats must have thermal insulation respecting certain standards</li> </ul> <p>Decent work</p> <ul style="list-style-type: none"> <li>• Labour Rights must be respected</li> </ul>

# 3. Investor interests are changing - Investing for Sustainability

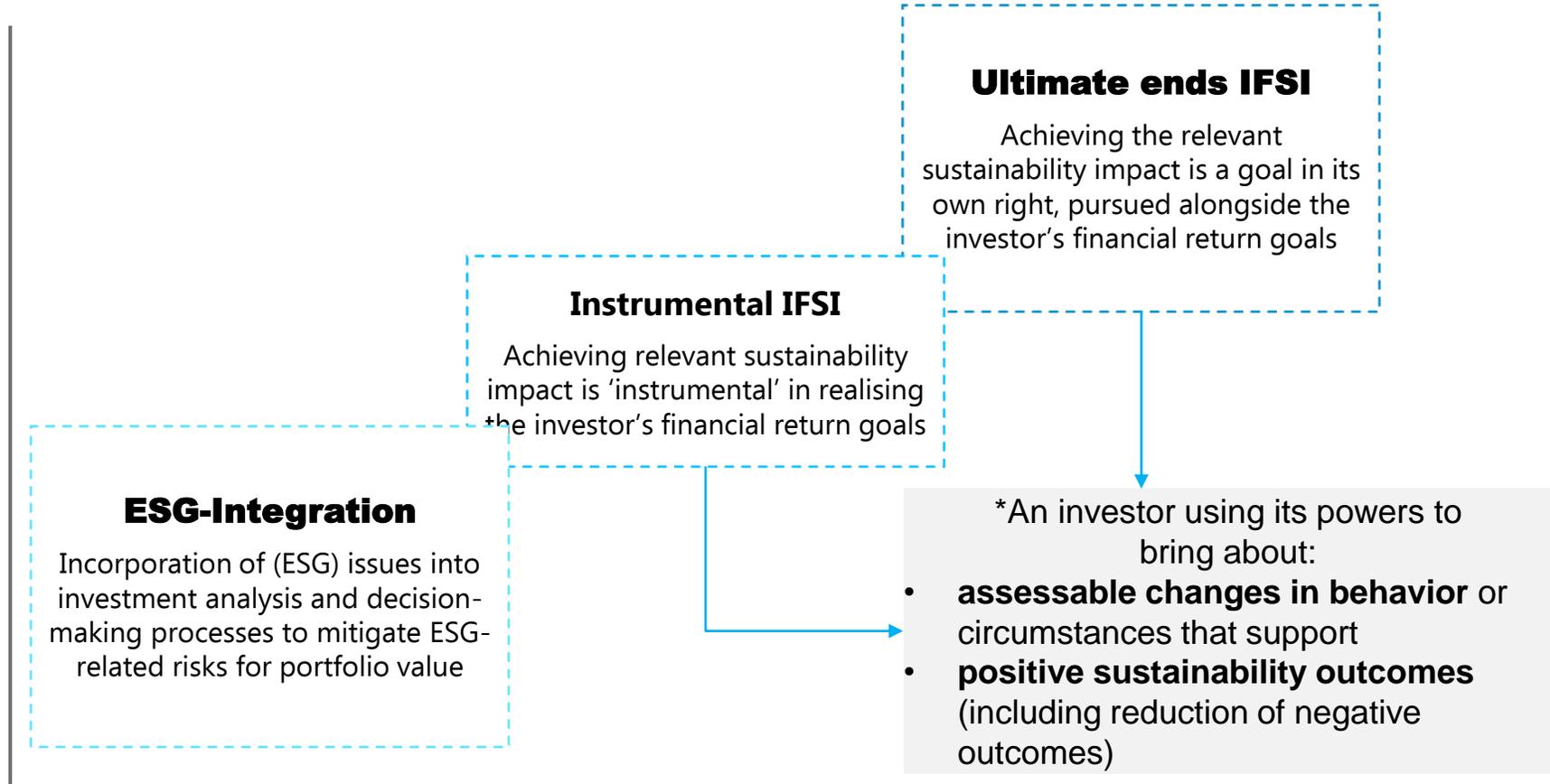
## Impact

Key feature: the **goal of the investor** – the **investment purpose** – and actions to make measurable progress towards a sustainability goal

**Intention for sustainability impact an end itself**

**Intention for sustainability impact as 'instrumental' for financial return**

**No intention for sustainability impact**



# What are investors doing (PRI) doing and why?



A stewardship initiative for  
human rights and social issues

[Advance initiative webpage](#)

- The Advance initiative is a collective platform to facilitate identification, prevention and mitigation (key steps in due diligence) of human rights issues. To begin with the initiative focuses on two important sectors: metal and mining, and renewables.
- Advance will facilitate investor action and learning to enable investors to meet regulatory expectations beyond the sectors and companies targeted in the initiative.

## Conclusions: what to expect next

- Rapid growth in regulations that address how business can support social issues and human rights (e.g. due diligence legislations, and social disclosure standards).
  - Uncertainty regarding new regulation amid other competing priorities (e.g. climate, energy, inflation)
- Social as an enabler of environmental transition:
  - Just transition - also a prerequisite (opposition grounded in jobs/growth: US, Canada, Australia, China, Brazil)
  - Energy access and human rights considerations
  - Industrial and education/training policies in countries like Canada are required to clearly signal transition and incentivise private sector investment.
  - Social issues matter for democracies, e.g. before the Covid pandemic, 70% of the world population lived in countries with rising economic inequality. Covid highlighted how underlying inequities were exacerbated.
- Investor activity to continue because it is in their interests

# Thank you

# Linking the EU Regulatory framework for issuers and financiers

## **SFDR:**

Taxonomy Reg Article 18.2 can link to SFDR Mandatory Social Principal Adverse Impacts

## **CSDDD:**

A proxy for Minimum Safeguards if aligned with the UNGPs and OECD MNE guidelines

## **CSRD:**

Will provide essential information on adequacy of Due Diligence and outcomes

- Six steps of UNGPs
- Information on identified risks
- Fines paid for violations

## **Taxonomy implementation:**

Auditors/Certifiers will verify compliance with minimum safeguards. Therefore, auditors will have to acquire knowledge on Human Rights Due Diligence

# Recent Tax reforms

- **OECD Tax Reforms: Pillar 1** (reallocation of “residual” profits) **and Pillar 2** (15% tax)
  - 137 countries agreed to implement Pillar 1 and 2 into national legislation
  - Companies in scope are largest MNEs (consolidated revenues €750 M)
  - Pillar 1: “Residual” profits to be reallocated to market jurisdictions based on a reallocation formula (simplified)
  - Pillar 2: if effective tax rate in one jurisdiction is below 15%, headquarter country will top-up the difference (simplified) creates incentives for countries to implement minimum tax in order not to lose revenue to HQ country.
  - Next steps: countries to ratify and implement both pillars into national legislation