

# NFU Position Paper

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## **Mainstreaming the social agenda in sustainable finance**

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**SHORT VERSION**

This short version of **NFU's Position Paper 'Mainstreaming the Social Agenda in Sustainable Finance'** offers highlights from the full version of the publication, listing the main areas and initiatives in the current EU sustainable finance arena where the social agenda is needed or could be advanced; the role of finance sector employees and trade unions; and key policy recommendations.

- The **full version of the publication**, together with the launch webinar and ppt, is available [here](#)
- The **Annex** highlighting the activities carried out by Nordic financial trade unions is available [here](#)

### About NFU

NFU – Nordic Financial Unions is an organization that promotes the interests of the Nordic financial trade unions in Europe. Through a high level of competence and dialogue, NFU contributes to shaping a sustainable financial sector, fundamental for job creation. Currently, NFU represents eight trade unions in the bank, finance and insurance sector in Denmark, Finland, Iceland, Norway and Sweden.

For more information, please visit [www.nordicfinancialunions.org](http://www.nordicfinancialunions.org)

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## Highlights from the policy recommendations

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The overview below includes some of the main highlights in the six identified areas where the social agenda can be advanced. More details about the policy recommendations are available on page 7 and in the full version of the Paper.

- In the scope of the **Taxonomy Regulation**: formally **expand the Taxonomy Regulation to include social objectives** and a social taxonomy; include **environmental and governance safeguards**; and reimagine the **Platform on Sustainable Finance** to include wider representation for (financial) trade unions and reach out to employees.
- In the scope of the **Sustainability-related Disclosures Regulation**: align the **social indicators in this Regulation with the social objectives in the**

**Taxonomy**; provide **detailed guidance for usage of templates and dilemma training** for employees; and consider the vast **competence development needs** not only among employees but also across the financial system as a whole.

- In the **Corporate Sustainability Reporting Directive (CSRD)**: expand the **scope of the reported social and governance information** to include elements such as whistleblowing mechanisms and employee representation in company boards; acknowledge the **role of trade unions** in carrying out assessments; and **re-imagine EFRAG** to include trade union representation.
  - In **Sustainable Corporate Governance**: introduce **binding due diligence** obligations across companies and business operations, including their supply/value chains; include **trade unions in the carryout of due diligence processes**; and include **trade union rights** as part of the framework and as means to ensure other human rights.
  - In the **European Green Deal**: include a **wider analysis of the social impact** on the effects from greening the economy, beyond the needs in re-skilling and up-skilling; introduce **safeguards that protect against harming human/labor rights**; and involve social partners in the **Just Transition Platform**.
  - In connection to **COVID-19 and recovery plans**: consider the need for **just/fair transition and mandate funding towards advancing the social agenda**; include **social safeguards**, at minimum, in the framing and implementation of recovery plans; assess the implementation from a **gender perspective** and flag initiatives that have been developed in **consultation with stakeholders**.
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## 1. Introduction

In recent years, sustainability and sustainable development have dominated the conversations on all levels. In parallel to the increased interest and support, the question of financing the achievement of the goals and indicators behind the global and regional initiatives started to surface. This is how **sustainable finance gained momentum**, with the EU assuming global leadership in the discussion, through setting grounds for new legislation on sustainable finance and setting up a strategy to satisfy the financing needs.

Two noteworthy outcomes were noticed soon after: sustainable finance was almost equally defined as sustainable investing, and the EU decided that a step-by-step approach will be pursued – meaning that the climate/environmental agenda will be prioritized, and the social and governance work will follow at a later stage - now.

## 1.1 NFU´s position

For NFU, the work with sustainable finance meant seizing the potential of the Nordic countries, the financial sector, the Nordic model, and finance sector employees while actively participating in the formation of this new EU agenda.

To channel NFU´s positions on sustainable finance, NFU adopted a [Policy Paper](#) at the end of 2019. Two highlights from the Policy Paper are the wider understanding that NFU has on sustainable finance, and the holistic approach, that considers climate/environmental, social and governance considerations on an equal footing.

## 2. The evolution of social considerations

Over the past years, the interest in social issues has been steadily rising among regulators, the finance sector and among Europeans. The next steps lie in assessing what social considerations really are, and where in the sustainable finance legislative landscape they can be introduced.

With that in mind, **social considerations could be defined as the manner in which any entity engages with its key stakeholders and the footprint that its policies and operations leave on their rights.** This could relate to **positive outcomes** towards people (including workers and customers), value/supply chains, and communities, leading to dialogue, respecting, or advancing their rights; or **negative outcomes** towards the mentioned stakeholders, leading to harming or denying their rights.

### 2.1 Current state of play

The EU sustainable finance agenda has largely been based on the EU Action Plan: Financing Sustainable Growth (2018). Other relevant initiatives are the European Green Deal (2019) and the new instruments supporting the COVID-19 recovery.

 <b>Taxonomy</b> <ul style="list-style-type: none"><li>• Minimum (social) safeguards</li><li>• Social objectives</li></ul>	 <b>Sustainable Corporate Governance</b> <ul style="list-style-type: none"><li>• Long-term view and directors´ duties</li><li>• Due diligence – supply/value chains</li></ul>
 <b>Disclosure</b> <ul style="list-style-type: none"><li>• Sustainable Finance Disclosure Regulation (SFDR) – considerations and indicators</li></ul>	 <b>European Green Deal</b> <ul style="list-style-type: none"><li>• Social safeguards</li><li>• Examining the social effects of the transition</li></ul>
 <b>Corporate Sustainability Reporting</b> <ul style="list-style-type: none"><li>• Assurance</li><li>• Advancing human rights/trade union rights</li></ul>	 <b>COVID-19 recovery plans</b> <ul style="list-style-type: none"><li>• ‘Building back better’ through a social perspective</li></ul>

*Illustration: Current state of play*

### 3. Role of trade unions and finance sector employees

- **Four specific roles that finance sector employees carry out and can support, in the context of sustainable finance:**

**Toward consumers:** Employees are central to the customer experience and to ensuring sound consumer protection. They are the ones customers will approach to better understand what sustainable finance is and receive sound, personalized advice. All these situations lift the need for sufficient time and resources to be given to employees for carrying out their tasks, as well as the need for competence development on sustainable finance.

**Toward a sound financial sector:** Employees are one of the main value-creators in the financial sector, and together with trade unions, one of the main supporters in accelerating the efforts to sustainable finance and sustainable working life by advancing the internal business processes, the working environment, the working conditions, and employee representation in decision-making and other relevant bodies. All of this strengthens the financial sector and contributes to its sustainable development.

**Toward sound implementation of financial regulation:** Employees, through their daily work, are central to the implementation of financial regulations. Their insights can be valuable in finding the right balance when it comes to disclosing sustainability-related data to consumers, assessing the administrative burden and streamlining the sustainable finance legislative framework for optimal effects.

**Toward the financial system and wider society:** Employees' efforts increase financial inclusion and improve transparency. By being directly involved in all aspects of financial operations, employees are part of the watchdog mechanism, strengthening the efforts against fraud, tax evasion, money laundering, greenwashing and social washing.

- In the Nordic countries, the majority of finance sector employees are organized in trade unions. Here, **trade unions** are active stakeholders and have strong impact in political decision-making. The **dual power of financial trade unions** lies in their ability to understand financial regulation while approaching it with a social lens. For inspiration, some of the efforts of the Nordic financial trade unions are presented in the separate [Annex](#) to the original publication.

### 4. Social agenda: general considerations

Working with the social agenda means that there are both certain specificities to the field and fundamental differences compared to the methodology used when working with the broad climate/environmental agenda. These considerations include:

- *Foundation* – the foundation relies on the EU Treaties or international instruments which have been politically agreed. The daily realities and actions on the other hand are closely tied to local communities and national legislation.
- *Definitions* – looking for a uniformed definition for a number of social issues might be a daunting task. Most reporting frameworks and legislative pieces would have a varying and often vague definitions of key terms.
- *Data* – historically, the quality and availability of data on social and labor issues has not been uniformed. This has affected the composition of social objectives and indicators, their understanding, and their comparability.
- *Activity vs entity* – the social impact of company operations, policies and strategies is usually visible at entity level, and as such it is much more difficult to break apart by activities.
- *Efforts vs effects* – when data on social issues is available, it will usually indicate the effort of a company (for example, the existence of a diversity policy) but not the effect of it (how and whether it is implemented and yields the foreseen results).
- *No offsetting* – unlike with climate, in a social context this is not possible, meaning that social considerations, indicators and objectives would have a direct, measurable effect that cannot be offset.

## 5. Overarching policy principles

There are certain overarching policy principles whose practice would improve the implementation of the various legislative files and instruments across the sustainable finance agenda:

- *Holistic approach* – working towards sustainable finance means that environmental (including climate), social and governance considerations are given the same level of attention and taken into account holistically, as opposed to one-by-one.
- *Policy coherence* – as several significant files for the sustainable finance agenda have been developed at a different point in time, policy coherence would help provide a uniform understanding and a set of definitions.
- *Social dialogue reinforcement and the role of social partners* – many of the social indicators, objectives, or considerations that are being addressed under the sustainable finance agenda could be better informed by direct engagement with social partners or discussed through the process of social dialogue.

- *Inclusion and competence* – initiatives towards financial (and digital) inclusion, consumers' access to sound, personal advice and sustainability-related competence are important for equitable access to sustainable financing options. In addition, the trend of closing local branches can limit this opportunity and potentially diffuse the access to finance for some SMEs.

- *New challenges/opportunities* – digitalization, customer (and employee) data management and governance, the risks of greenwashing and social washing, and the unlevelled playing field with FinTech/BigTech companies need to be considered in the sustainable finance agenda, and turned into opportunities.

## 5.1 Policy recommendations - main areas

### *Taxonomy*

- Prioritize on **formally expanding the scope of the Taxonomy Regulation to include social objectives**, and further detail them through a social taxonomy.
- The social taxonomy should be geared towards the **Sustainable Development Goals (SDGs)** and informed by both fundamental EU legislative and strategic instruments. Furthermore, successful national/regional approaches and social dialogue outcomes should be considered where relevant.
- NFU sees that **a set of wide social objectives needs to focus on areas such as:** fostering social dialogue; decent job creation; improving access to essential products/services; social innovation; fostering occupational health and safety at work; quality work environments; advancing gender equality and diversity; fair compensation and benefits; developing democracy at work; and assessing the impact on local communities.
- The existing minimum (social) safeguards in the current (environmental) taxonomy should be accompanied by **clearly defined procedural asks and standards** that will support their application and reporting in a uniformed way.
- In the same line of thinking, a social taxonomy should take into account **minimum environmental safeguards**. Also, **governance-related safeguards** should be part of both the environmental and social taxonomy.
- The **Platform on Sustainable Finance** should be reimagined to specifically include a wider representation of (financial) trade unions in its work and an opportunity for direct input from finance sector employees, as needed.

### *Disclosure*

- Ensuring a **right balance** between the quality, relevance and amount of sustainability information disclosed.
- There has been a missed opportunity to **align the social indicators under SFDR and the social taxonomy objectives**, as well as to establish a proper space for dialogue and benefit from the expertise of stakeholders with social competence in the development of the indicators.
- **Costs, time and other resources** devoted to the usage and interpretation of the obtained data by employees, competence development, changes in the provision of advice, meeting regulatory demands and more need to be part of impact assessments.
- The need for **competence development** throughout the financial system, including regulators and supervisors, particularly concerning social and governance considerations is crucial.
- The slow evolution of the availability, relevance, quality, consistency and comparability of **sustainability-related data** needs to be considered and balanced with the reporting needs.
- The **testing phase of the SFDR templates** needs to be strengthened, so they are assessed after every alteration by EU legislation, including by finance sector employees and consumers, and before they are released for use.
- In connection to the latter, clear and **detailed guidance on usage of templates and addressing potential dilemmas** could be useful to facilitate the process.

## **5.2. Policy recommendations - connected areas**

### *Corporate Sustainability Reporting Directive (CSRD)*

- The CSRD now applies to all listed companies and large companies meeting certain criteria. The **added value** of this change should be reassessed as implementation reports of the earlier directive state that this has already been the case in 11 (out of 27 EU Member States), including in the Nordic countries.
- It is positive that the **treatment and credibility of the reported sustainability-related information** has been strengthened and that the sustainability-related information is now to be presented together with financial information.
- There is a **clear role for trade unions** and finance sector employees in meeting the new requirements in selecting material topics, disclosing social impact and capital information, reporting, as well as in the assurance process.



- The **scope of reported governance and social information** should be extended to reflect issues such as internal and external reporting channels/whistleblowing mechanisms; employee representation in company boards; data management and integrity; diversity; and disclosure of value/supply chains-related data.
- Trade union representation and involvement in the **European Financial Reporting Advisory Group (EFRAG)** and its working structures responsible for developing sustainability reporting standards is essential for achieving an informed process and solid outcome.

### *Sustainable Corporate Governance*

- Setting up **binding due diligence** obligations for companies across business operations and value/supply chains is one way of contributing to advancing the social agenda.
- The rights to freedom of association, collective bargaining rights, social dialogue, democracy at work, and decent working conditions should be an important part of this framework. Fulfilling and respecting these rights would enable the fulfillment of other human rights. This is relevant **internally, but particularly pertinent for companies' external, outsourced operations** where widespread breaches tend to happen.
- Trade unions and employee representatives should take an active part in the process of **due diligence**. At the same time, trade unions negotiate **Global Framework Agreements**, which can be a good basis for implementing due diligence requirements.
- Potential regulatory requirements should make sure **not to hamper current actions** to improve diversity on company boards and increase the representation of women in top management. At the same time, due consideration needs to be given to **national regulations and traditions**, as well as the labor market specificities, including varying payroll taxation models.

### *European Green Deal*

- A **wider analysis of the social impact** on the effects and impact of the greening of the economy is missing and much needed, beyond the current focus on re-skilling and up-skilling.
- A comprehensive analysis on the social effects could give the Just Transition Mechanism, a new, **more targeted purpose**. The recent **Social Climate Fund**, for example, could be repurposed to go beyond addressing the social impact of the new EU Emissions Trading System (ETS) only.
- The **introduction of safeguards that protect against harming human/labor rights** need to be a key part of these initiatives.

- The **Just Transition Platform**, as a space for assistance, dialogue, and exchange of best practices for Member States, should also involve social partners. Given the magnitude of the European Green Deal, the possibility to establish an EU-wide civil society mechanism should be explored.
- The policies and activities foreseen with the European Green Deal need to consider the work and the findings of the **EU Taxonomy** and align with the **Sustainable Development Goals (SDGs)**.

### *COVID-19 recovery plans*

- The main premise behind supporting the post-pandemic recovery has been to ensure a digital and green recovery. This concept needs to consider the need for **just/fair transition and mandate funding towards advancing the social agenda**, while mitigating the effects of the pandemic.
- In this present context, at least **social safeguards** need to be part of the framing and implementation of recovery plans.
- A guiding framework for the Member States' recovery plans have been the **six pillars** defined with the Recovery and Resilience Facility. Re-imagining this framework to motivate social initiatives and facilitate their classification could boost the number of social initiatives taken.
- The European Commission should analyze and monitor the implementation of the recovery plans from a **gender perspective** as well as flag initiatives that have been developed in **consultation with relevant stakeholders**, encouraging cooperation in the same spirit.
- The **environmental and social taxonomy and the SDGs** should form a basis for the sustainability-related efforts of the initiatives. Furthermore, **public procurement rules** should be aligned with the existence of collective agreements and freedom of collective bargaining.