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Taxonomies: EU Platform on Sustainable Finance Publishes Final Report on Minimum Safeguards

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Taxonomies



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On October 11, the EU Platform on Sustainable Finance (PSF) published a [final report](#) on minimum safeguards under the Taxonomy Regulation Articles 3 and 18. Climate-related taxonomies classify businesses or products according to whether they should be considered sustainable. While several jurisdictions have published taxonomies, the EU's Taxonomy is well-developed and influential. The Regulation requires that environmentally sustainable economic activities meet minimum safeguards involving specified international human rights requirements, and offers recommendations on assessing compliance with these minimum safeguards. According to the report, an economic activity's sustainability should be considered with reference to processes for compliance with human rights (including workers' rights), anti-bribery and corruption, and fair competition. The report also examines the connection between these minimum safeguards and other EU climate-related regulations that we have [previously discussed](#), including the Sustainable Finance Disclosure Regulation, the near-final Corporate Sustainability Reporting Directive (CSRD), and the anticipated Corporate Sustainability Due Diligence Directive (CSDDD). The PSF, however, is an expert advisory group established to assist in the development of sustainable finance polices; thus, while the report will inform further regulation, it is not binding on the European Commission.

Taking the Temperature: The report highlights a view that there are close connection among the Environmental and Social components of ESG. While as part of their fiduciary duties boards and management need to consider how it is appropriate for a company to address social impact issues, there is a risk that tying those issues with climate-change matters confuses consideration of both. The potential for confusion can be seen in the ESG ratings industry, where a company may receive a relatively lower overall rating based on social issues even though it is environmentally friendly, or vice versa. Without minimizing or ranking the relative importance of E, S or G, each of these areas is sufficiently important, complex and challenging on its own that discrete

analysis of each — or of sub-topics within each — will promote better and clearer decision-making and investor understanding.