

CALL FOR THE ISSB TO PRIORITIZE DEVELOPMENT OF A THEMATIC SOCIAL-RELATED DISCLOSURES STANDARD: KEY MESSAGES

The International Sustainability Standards Board (ISSB) has issued a proposed set of Agenda Priorities, which include ‘human capital’ and ‘human rights’ with regard to social issues. While these two potential agenda items contain a wealth of relevant social issues for financial disclosures, they are substantially overlapping and intertwined categories of information. Taking this approach will foster confusion and complexity in the market, and make it harder for both companies and the providers of capital to navigate the issues, assess materiality, and provide and analyze disclosures in a coherent manner that enables effective decision-making.

This note sets out the opportunity and the rationale for the ISSB to start instead with a general thematic standard on ‘social-related’ disclosures, much as it did for climate. Such a standard would set the foundation for disclosures of relevance for all companies regarding those aspects of governance, strategy, risk management, and metrics and targets that are particular to social matters. It would enable a clear architecture for social issues and deliver the contextual information that providers of capital need in order to interpret disclosures on more specific topics relevant to human capital and/or human rights as well as social capital.

The ISSB has only one opportunity to set the right foundations for disclosures on social matters. Its choices at this point will shape the future success of its work with regard to the social dimensions of sustainability, including as they relate to environmental and governance matters.

The key messages set out below are the result of discussion across a broad range of business, investor, civil society and multi-stakeholder organizations. They are provided as a resource for organizations whose own views align with the proposition above, to draw upon in their responses to the ISSB as they see fit.

A. The challenges with the ISSB’s proposed approach to social-related disclosures

- 1. The ISSB’s proposal to include human capital and/or human rights in its near-term agenda is a welcome recognition of the significance of social issues for material financial disclosures. However, the proposed approach risks compounding, rather than reducing, the confusion that exists in the market with regard to social-related disclosures.**
 - There is currently no common, global understanding in the field of sustainability reporting of how different ‘social’ issues inter-relate. In addition to the overlapping categories of human capital and human rights, lists of social topics often include individual human rights such as forced labor, child labor, health and safety and privacy; business functions such as supply chain management or labour relations; and categories of affected stakeholder such as Indigenous peoples.ⁱ
 - Without a clear and consistent architecture that enables an understanding of how different social issues relate to each other and to different companies’ operations and value chains, it is harder for companies to anticipate and manage these risks and for providers of capital to integrate them into their decision-making and engagement activities.

- The current ISSB proposal to work either separately or in parallel on ‘human capital’ and ‘human rights’ standards would perpetuate and compound this currently confused landscape regarding social issues.

2. Providers of capital need to know how well entities they finance understand social-related risks and opportunities in general and the extent to which they are equipped to identify and manage these issues effectively. ISSB’s proposed approach would not meet this need.

- The ISSB’s General Requirements standard is too broad and high-level to provide the necessary contextual information on how entities’ governance, strategy, risk management, and metrics and targets are designed and intended to address social-related risks and opportunities in particular.
- As in the case of climate, a thematic standard is needed that would set the right foundation for material social-related disclosures that are both common to all companies and essential for providers of capital to have the insight they need to assess companies on a level playing field.
- Topic-specific and industry-specific disclosures will be incomplete without this general foundation. It sets the essential context for any understanding of specific social risks and opportunities ranging from health and safety, diversity and inclusion, and labor rights to privacy, community-related risks and product safety, among others.

3. The ISSB’s paper recognizes that human capital and human rights overlap, and that human rights are not solely relevant in value chain contexts. However, ISSB’s current proposed approach will embed this very assumption, implying that in fact human capital issues relate to the workforce while human rights relate only to the value chain.

- The people who help make or deliver company products through their work in corporate value chains are part of the human capital on which companies depend, along with workers in their own workforce.ⁱⁱ
- At the same time, human rights regarding freedom from forced and child labor, living wages and other labor-related human rights cannot be addressed solely in value chain contexts; this would ignore situations where they occur in company workforces - in both developed and developing economies - and generate material risks.
- In practice, human capital and human rights are extensively overlapping categories and the issues they address are intertwined:
 - With regard to topics listed for potential inclusion under a ‘human capital’ standard:
 - DEI is largely about measures to tackle explicit and implicit; freedom from discrimination is a fundamental human right;
 - The issues surrounding gig economy work and other precarious forms of employment fundamentally relate to human rights such as living wages and access to social security;
 - The physical and mental health of a workforce, as affected by workplace conditions, is to a large extent a human rights issue.ⁱⁱⁱ
 - With regard to issues listed for potential inclusion under a ‘human rights’ standard:
 - Child labor is not limited to the supply chain. For example, it has been identified in 2023 in a range of US company facilities, including packaging, food and beverage, apparel and hotel industries;^{iv}
 - Just Capital estimates that 50% of workers at the 1,000 largest publicly-traded companies in the US earn less than they need to support a family of three (ie less than a living wage);^v

- Material financial effects have frequently resulted from impacts on Indigenous peoples and local communities generated by an entity's own operations - not just in its value chain - including recent examples of tailings dam collapses and the destruction of ancient Indigenous sites.^{vi}

4. While ISSB's intention to develop 'just transition' disclosures is welcome, this is not a sufficient antidote to the broader interactions between inequality and climate change, which require attention to social-related risks and opportunities more generally.

- The latest text from the Intergovernmental Panel on Climate Change (IPCC) set outs clearly that inequities linked to gender, ethnicity, income, and other factors increase vulnerability to climate risks and impacts. The IPCC calls for action to tackle inequality as a key lever in achieving climate resilience and adaptation.^{vii}
- This is distinct from specific actions by individual entities to mitigate the risks and increase the opportunities for workers, communities and consumers in their own climate strategies. It therefore extends well beyond the scope of potential 'just transition' disclosures.

B. The Opportunity for ISSB to set a clear foundation and architecture for social-related disclosures on which future standards can build.

1. ISSB has committed to setting the global building blocks for sustainability reporting from a financial materiality perspective. To do so, its social standards need to start with a cross-cutting thematic standard that can set the foundation and the architecture necessary to navigate these issues.

- A thematic standard on 'social-related' disclosures can provide an organizing construct and logic for reporting entities to understand how specific types of social-related impacts, risks and opportunities relate to their own operations and value chains. In doing so, such a standard:
 - can help reduce, rather than compound, the existing confusion between categories of social issues, including human capital, human rights and social capital.
 - can support a more complete understanding of how social-related risks and opportunities may derive from entities' own impacts and dependencies on people or from the systemic risk of inequality;
 - can thereby support consistent and coherent approaches to the identification of material social information;
- This will enable providers of capital to develop systematic approaches to the integration of these material matters in their decision-making and engagement strategies.

2. This approach would build on the ISSB's existing guidance documents and support interoperability with other sustainability reporting standards. It would resolve the tensions identified by the ISSB in its current proposals regarding human capital and human rights.

- The CDSB’s Framework for Reporting Environmental and Social Information – a foundational document of the ISSB – already points to a number of key elements for a thematic standard on social-related financial disclosures.
- While the ISSB paper suggests that the CDSB Framework “centers on the human rights of groups of people in an organization’s value chain”, it in fact provides a complete architecture across the four categories of people that entities may impact or depend upon in their operations and value chains: their workforce, value chain workers, affected communities, and consumers and end-users. The Framework points to some of the ways in which risks and opportunities can result from impacts and dependencies on these groups.^{viii}
- These same four categories are also the basis for the four EFRAG social standards, which similarly cover an entity’s own workforce, value chain workers, affected communities, and consumers and end-users. By developing a thematic social-related standard that reflects the same architecture, the ISSB can seize a valuable opportunity for convergence and inter-operability in the sustainability reporting field.
- This approach would also avoid the challenges that ISSB highlights with regard to its current proposal to categorize standards by ‘human capital’ and ‘human rights’ – not least the difficulty of identifying boundaries between the two.

3. A thematic standard on social-related financial disclosures need not delay disclosures on workforce related disclosures, including some of those proposed for a human capital standard.

- The development of a thematic standard on social-related financial disclosures is no larger an undertaking than the other proposals in the ISSB’s draft agenda priorities: it would be a broad standard, rather than a highly granular one.
- Many of the essential elements for such a standard are already well-known given the existing international standards on human rights due diligence and the growth in legislation as well as industry-led, cross-industry and investor-based principles and initiatives founded on these standards.
- Given that all entities have a workforce, the ISSB could consider including certain workforce-related disclosures in a thematic standard on social-related disclosures. These could include metrics regarding workforce composition, DEI, compensation including living wages, mental health and social benefits, and freedom of association, which reflect typically material information from both a human capital and human rights perspective.
- The ISSB will be able to progress more efficiently in the future on specific social-related topics, once a clear foundation and architecture for social-related disclosures have been established.
- The announcement of plans to establish a Taskforce on Social/Inequality-related Financial Disclosures – akin to the TCFD for climate and TNFD for nature – which is likely to be launched in Q1 2024, offers a further opportunity for this approach. It would be a timely and valuable resource that can provide supporting research and consensus-building opportunities with regard both to a cross-cutting social standard in the near term, and to subsequent standards on specific social-related topics in due course.

END NOTES

ⁱ See Ruggie and Middleton, *Money, Millennials and Human Rights: Sustaining 'Sustainable Investment'*, Harvard Kennedy School, 2018; available at: <https://www.hks.harvard.edu/centers/mrcbg/publications/fwp/2018-01>

ⁱⁱ See Capitals Coalition, *Social and Human Capital Protocol*, available at: <https://capitalscoalition.org/capitals-approach/social-human-capital-protocol/#:~:text=The%20Social%20%26%20Human%20Capital%20Protocol,on%20social%20capital%20%26%20human%20capital>

ⁱⁱⁱ See the International Covenant on Economic, Social and Cultural Rights: Article 2 on freedom from discrimination; Article 7 regarding remuneration and safe and healthy working conditions (<https://www.ohchr.org/sites/default/files/cescr.pdf>)

^{iv} <https://www.washingtonpost.com/made-by-history/2023/04/18/child-labor-returns/>

^v <https://www.businessinsider.com/companies-should-invest-in-workers-and-pay-a-livable-wage-2022-5>

^{vi} <https://www.reuters.com/business/brazils-vale-fined-17-mln-brumadinho-tailings-dam-disaster-2022-08-15/>; and <https://www.bbc.com/news/world-australia-54112991>

^{vii} IPCC, *IPCC Sixth Assessment Report*. 2022; available at: <https://www.maplecroft.com/insights/analysis/101-countries-witness-rise-in-civil-unrest-in-last-quarter-worst-yet-to-come-as-socioeconomic-pressures-build/>

^{viii} For the full articulation of these categories, see *CDSB Framework for reporting environmental and social Information*, 2022, p.8; available at: https://www.cdsb.net/sites/default/files/cdsb_framework_2022.pdf