The Chartered Governance Institute UK & Ireland

Saffron House
6-10 Kirby Street
London EC1N 8TS

+44 (0)20 7580 4741
info@cgi.org.uk
cgi.org.uk

By online form: https://www.tisfd.org/provide-feedback

1 August 2024

Dear Sir / Madam,

TISFD Proposed Scope and Mandate: Technical Scope Feedback

The Chartered Governance Institute UK & Ireland (CGIUKI) is the professional body for governance and the qualifying and membership body for governance professionals across all sectors. Its purpose under Royal Charter is to lead effective governance and efficient administration of commerce, industry, and public affairs working with regulators and policymakers to champion high standards of governance and providing qualifications, training, and guidance. As a lifelong learning partner, the Institute helps governance professionals achieve their professional goals, providing recognition, community, and the voice of its membership.

One of nine divisions of the global Chartered Governance Institute, which was established 130 years ago, The Chartered Governance Institute UK & Ireland represents members working and studying in the UK and Ireland and many other countries and regions including the Caribbean, parts of Africa and the Middle East.

As the professional body that qualifies Chartered Secretaries and Chartered Governance Professionals, our members have a uniquely privileged role in organisations' governance arrangements. They are therefore well placed to understand the issues which TISFD seeks to address. In preparing our response we have consulted, amongst others, with our members. However, the views expressed in this response are not necessarily those of any individual members, nor of the charities they represent.

Our views on the questions asked in your call for feedback are set out below.

The Working Group that is preparing for the launch of the Taskforce on Inequality and Social-related Financial Disclosures (TISFD) is currently preparing a set of recommendations to the Taskforce on the possible scope and mandate of its work, the approach it might take to questions related to materiality and its relation to other frameworks and standards, and its intended outputs, outcomes and impacts. The Working Group welcomes your feedback, questions, and reflections on any or all of the topic areas.

1) Thematic Scope

Inequality is arguably the defining social issue of our time. In many countries, inequalities in income and wealth stand at long-term record highs, as do broader divisions in society as a whole. While the prevalence of extreme wealth has risen, many people are unable to exercise their human rights and meet their basic social and economic needs, and the prospect of doing so may have become more remote since the Covid pandemic. Even where people's basic needs are met, the benefits of productivity increases have been shared unevenly, resulting in societal cleavages. Such divisions are exacerbated by inequalities in various aspects of people's well-being, such as physical and mental health outcomes, loneliness, and feelings of being left out of society. Climate change and nature loss are also exacerbating inequalities, as the poor and marginalized are more severely impacted and less able to respond to change.

These dynamics erode human capital and undermine social cohesion and stability. They impede progress towards addressing climate change and ecological degradation. And they increase financial risks, including at the portfolio and macro-economic level. Regulators and policy makers, companies, and investors each have a critical role to play in safeguarding people's rights and well-being to reduce the accumulation of these risks in society and the economy.

Propositions:

► The Working Group proposes that the Taskforce approach social and inequality-related issues in an integrated and coherent manner that reflects the breadth of issues concerned and the complementarities between companies' responsibility to respect human rights, efforts to reduce inequalities and enhance people's well-being, and investments in human and social capital.
► To enable this integrated approach, the Taskforce will need to set out conceptual foundations that clarify and articulate the relationships between impacts and dependencies on people and associated risks and opportunities. This includes clarifying the various themes, topics or dimensions that constitute people's state of being, the different stakeholders affected, and the various types of inequalities. These conceptual foundations should also reflect the deep interlinkages between social and inequality-related issues on the one hand, and efforts to address climate change and nature-related risks on the other.
► A broad approach to social and inequality-related issues does not necessarily mean that the Taskforce's disclosure recommendations will address every social issue separately. Keeping in mind the broad scope of these issues, the TISFD will prioritize disclosure recommendations that are of general relevance and/or that most meaningfully allow users of information to respond to widespread or

significant social and inequality-related risks, opportunities and impact.

Does this resonate with you? Please share any questions or reactions you may have below.

CGI broadly agrees with the thematic scope for the TISFD as set out here, and it is highly encouraging to see the establishment of a disclosure Taskforce focused exclusively on social issues. We are supportive of a joined-up approach which allows for a global assessment of material social- and inequality-related issues. However, as the proposed scope alludes to, the range of issues included under this umbrella is immense, from safeguarding human rights in supply chains to investing in human capital within the workforce. In time, it is likely that the work of the Taskforce will need to be split out to differentiate between issues and prioritise them more fully. It is positive that the Taskforce is already cognisant of a need to prioritise those recommendations which will lead to disclosures with the most widespread relevance. We would expect, in time, for the Taskforce to undertake stakeholder engagement and consult more fully on how such prioritisation decisions are made.

2) Materiality Approach

The information that companies report (their "disclosures") related to environmental and social issues depends on the purpose of the disclosures and the audience for which they are intended. Companies may report to several audiences, or stakeholder groups, such as the public (including civil society organizations and representatives of affected rightsholders), the government, or to investors or lenders.

Investors are often interested in information related to risks to their financial interests. Other audiences, such as civil society organisations, tend to be interested in understanding the ways in which businesses and financial institutions impact people and the natural environment. Increasingly, some investors are interested in that information as well, including because impacts on people can be the root cause of, or intertwined with, financial risks and opportunities, and pose portfolio-level risks.

The relevance and significance of information is often referred to as "materiality". "Financial materiality" refers to information that investors need to make decisions about what will create financial value over the short, medium or long term. "Impact materiality" refers to information that a wider audience uses to understand an organisation's significant impacts on people and the natural environment. These materiality "perspectives" are different but overlap with each other, meaning that some information may be material from both perspectives (for example: GHG emissions, when they pose transition risks or child labour in manufacturing due to reputational risks).

Propositions:

► The Working Group proposes that the Taskforce develop disclosure recommendations that are interoperable with both an impact materiality perspective and a financial materiality perspective. Given that different standard-setters and regulators adopt different materiality perspectives, we suggest that the Taskforce should seek to delineate these perspectives where feasible, while recognizing that

the identification of an organization's material/significant impacts is an essential basis for identifying many financially material matters.
► The Taskforce should also explore the materiality of inequality as a system-level risk. To do so, we suggest that the Taskforce evidence the relationships between organizations' impacts, the accumulation of inequalities, and system-level financial effects for companies, investors, markets and financial stability. We suggest that the Taskforce should explore where and how impact materiality and financial materiality overlap, taking account of different time horizons, and that it consider the extent to which the metrics and indicators most relevant for each materiality perspective may also overlap.

Does this resonate with you? Please share any questions or reactions you may have below.

It is encouraging that the Taskforce will be considering both financial and impact materiality. This is likely to make its outputs more globally applicable and increase the interoperability of its recommendations with existing and future standards. Given that two of the largest standard-setters, ISSB and GRI, take different approaches to materiality, the TISFD is likely to see a wider adoption of its recommendations by covering both financial and impact materiality. The same is true not only of standard-setters, but also of different jurisdictions. For example, whilst the EU takes an impact materiality approach, the UK looks largely to financial materiality.

Whilst there will be some overlap between financial and impact materiality, it is crucial that the Taskforce makes clear which materiality approach has been taken where in its outputs. This will support a smooth adoption of its recommendations, as standard-setters, regulators and entities will be able to distinguish which recommendations apply to their chosen materiality approach.

This is an ambitious programme. The Taskforce is proposing to develop recommendations across a huge range of metrics and topics (as mentioned in our response to question 1), and then also consider these topics across both types of materiality. Depending on the resources available, the Taskforce will likely want or need to prioritise particular workstreams over others. In this case, we would suggest that financial materiality take precedence, as it forms the basis of regulatory standards across the world, and also forms a key part of impact materiality.

3) Alignment with International Standards of Conduct

International standards of conduct that address the responsibility of business and financial institutions with regard to negative impacts on people's human rights are of central relevance to the assessment and disclosure of inequality and social-related issues. These standards are the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. They include due diligence expectations for the management of risks of adverse impacts.

These standards have been endorsed by Governments and are beginning to be transposed into legislation and integrated into reporting standards in a number of jurisdictions. They have also been taken up by companies and industry groups, investors and investor groups, multi-stakeholder initiatives, civil society and labour organizations nationally and globally.

Propositions:

► The Working Group proposes that the Taskforce ensure that its disclosure framework aligns with these international standards.
► The Working Group also acknowledges the need for the Taskforce to consider whether additional frameworks or guidance may be necessary to underpin its disclosure framework with regard to the management of financially material risks, including the systemic risk of inequality (and related opportunities), as well as with regard to the management of business and investor impacts on inequalities.
► In order to arrive at a clear view on this, the Working Group suggests that the Taskforce first develop a clear evidence base for the pathways between impacts on people, inequalities and financially material risks, and assess whether sufficient guidance exists on the identification, assessment and management of impacts and risks.

Does this resonate with you? Please share any questions or reactions you may have below.

CGI commends the TISFD in choosing to align with existing international standards. An initial scoping project to develop a clear evidence base will be an important starting point. Whilst the Taskforce will be able to draw upon these existing standards, it should, of course, not feel bound to these. There may be areas in which these standards are not sufficiently comprehensive for the specific purposes of creating disclosure-related recommendations.

4) Interoperability with Existing Standards and Frameworks

A number of standard-setters exist in the sustainability reporting space. Notable standard-setters are:
The International Sustainability Standards Board (ISSB), which sets standards on sustainability-related financial disclosures, intended to guide corporate reporting of sustainability-related information that is used to evaluate risks and opportunities for the company's financial value creation; and,
The Global Reporting Initiative (GRI), which sets standards for organisations (including both private and public sector entities) to report on their impacts on people, the environment and the economy, for a multi-stakeholder audience.

Increasingly, jurisdictions are mandating sustainability disclosures, for example the European Sustainability Reporting Standards (ESRS) adopted by the European Commission. In addition, the Taskforce for Nature-related Financial Disclosures (TNFD) and the Taskforce for Climate-related Financial Disclosures (TCFD) have successfully provided disclosure recommendations on nature- and climate-related issues. These recommendations are currently being used by companies and investors, and, in the case of TCFD, have been incorporated into law by some jurisdictions and integrated into the work of the ISSB. These Taskforces can provide important precedents, as well as inspiration, for the TISFD.

Propositions:

► The Working Group underscores that the Taskforce is not intended to be a standard-setter, but that it should strengthen the development of social and inequality-related financial disclosures and be available as a knowledge partner to standard-setting bodies and jurisdictions such as those mentioned above. The Working Group also proposes that the Taskforce should leverage and build upon the indicators and metrics in existing reporting standards and frameworks.
► The Taskforce should conduct a thorough review of the content of these reporting standards and frameworks, engage with the organizations that have developed or adopted them, and carefully analyse the indicators and metrics used, including the robustness of the insights they provide and any gaps they leave unaddressed. The Working Group suggests that this analysis should inform Taskforce decisions on which indicators and metrics could be included in or cross-referenced under the TISFD disclosure framework.
► The Working Group recognizes that the Taskforce will need to strike the right balance between maintaining the value of the approaches adopted by TCFD and TNFD and adapting where needed to address the specificities of inequality and social-related issues. Specifically, the TISFD should strive to align with the overarching structure of the disclosure frameworks delivered by these previous Taskforces, while ensuring that the framework's content adequately reflects the existence of international standards of conduct with regard to the impacts of business and finance on people (the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises), and the particular ways in which impacts on social issues lead to financial risks, including system-level risks such as inequality.
► Together with disclosure recommendations on climate and nature-related issues, the TISFD's recommendations can represent a tool to facilitate efforts towards a just transition, in which climate-, nature- and social- and inequality-related risks and impacts are addressed in a coherent and complementary way.
► Finally, the Working Group recognizes that a Taskforce on inequality and social-related issues will need to ensure that it does not perpetuate inequalities in the effort to address them. It will therefore be important that it include participation by civil society, labour organizations and marginalized groups alongside investors and business in the Taskforce's structures, deliberations and decisions.

Does this resonate with you? Please share any questions or reactions you may have below.

CGI is in agreement with each of the propositions detailed under question 4. As proposed, TISFD should not aim to act as a standard-setter, but instead share knowledge with standard-setting bodies. It is also important that its recommendations build on existing metrics and reporting frameworks. The final point, around participation of civil society, labour organisations and marginalised groups, will be particularly important. We would ask: How will TISFD demonstrate that it has achieved this final point? What outreach activity will it undertake in order to engage with groups who might otherwise not get a seat at the table?

5) Proposed Outputs

The Working Groups envisions that the TISFD will produce the following outputs:

► A global disclosure framework: A global framework containing disclosure recommendations and associated guidance.
► Conceptual foundations and definitions: An organising framework for understanding key social and inequality-related concepts and how they interrelate.
► A body of evidence on impact and risk channels: A repository of existing and new research that sheds light on the relationships between business and investor impacts on people and inequalities, associated idiosyncratic risks, and the system-level risks associated with inequalities and social-related issues.
► Guidance on metrics, indicators, and data: Guidance on the use of meaningful and decision-useful metrics, indicators and data in the reporting of inequality and social-related impacts, dependencies, risks and opportunities.
► Guidance on the use of thresholds and targets: Guidance on the use of thresholds and targets in the reporting of social and inequality-related impacts, dependencies, risks and opportunities
► Guidance on identification and assessment: Guidance on the identification and assessment of material inequality and social-related impacts, dependencies, risks and opportunities.
► Capacity-building resources: Accompanying materials to support a broad range of audiences, including businesses, investors, policy makers, labour unions, civil society organisations, and affected stakeholders, such as workers and rural and indigenous communities, in using the TISFD's disclosure framework and recommendations.

Does this resonate with you? Please share any questions or reactions you may have.

The proposed outputs are highly encouraging and will no doubt represent a significant contribution to standard-setters, regulators, businesses, investors and other stakeholders. CGI welcomes the ambition of the Taskforce – and there is no doubt that this is an impressive workplan. In time, it will be helpful to hear a proposed timeline for this work, and how outputs are likely to be staggered (particularly as some will depend on the outcomes of others). We would also reiterate the importance of working with a range of stakeholders to inform the underlying research and consultation work needed to support these outputs.

6) Intended Outcomes and Impacts

The Working Group considers that the ultimate impact of the Taskforce's work to develop the Disclosure Framework should be to reduce short, medium, and especially long-term financial risks, to strengthen financial stability and resilience, to improve macro-level economic outcomes, and ultimately to deliver better outcomes for people, including greater respect for human rights, and increased human development and well-being. To do so, the TISFD will focus on the delivering the following outcomes:

► Companies and financial institutions understanding their impacts and dependencies on people and strengthening their identification, measurement, management and disclosure of inequality and social-related impacts and the associated financial risks and opportunities

► Financial institutions recognizing inequality as a system-level risk (and missed opportunity, as concerns the benefits of reducing inequality), understanding the aggregate impacts of both investees and their own activities on inequalities; and integrating this understanding in their assessment of financial risks and how they allocate and price capital, engage with investees, and structure investments

► Standard-setters and policy makers embedding TISFD recommendations in reporting standards and laws, fostering global harmonization

► Benchmarking and rating providers improving the accuracy and relevance of social-related benchmarks and ratings

► Civil society organizations being able to hold companies and financial institutions to account for how they address inequality and social-related issues

► Governments, financial supervisors and macroprudential authorities using disclosures to formulate more effective policies and strategies for the safeguarding of societies and financial systems

Does this resonate with you? Please share any questions or reactions you may have.

Delivering 'better outcomes for people, including greater respect for human rights, and increased human development and well-being' is a very noble and worthy 'ultimate impact'. It is, of course, not going to be achieved through the work of the TISFD alone. Much of the success in achieving this outcome will depend not merely on the Taskforce's outputs, but on the ability and willingness of high-level stakeholders to work in alignment with, and implement, these outputs. The raft of stakeholders outlined above in 'outcomes' is large, and each of these will need to buy in to the Taskforce's recommendations. As such, a strong commitment to communication, to implementation support, and to stakeholder engagement will be critical to the Taskforce's success.

7) Gaps and Weaknesses in Metrics and Indicators

► The Working Group recognises that, while existing standards contain useful disclosure indicators and metrics, there remains a perceived need for meaningful and decision-useful metrics and indicators on companies' and investors' social and inequality related impacts, dependencies, risks and opportunities.

Are there any specific gaps or weaknesses in disclosure indicators and metrics that you would like to bring to the attention of the Taskforce? These suggestions may serve as inputs for consideration by the Taskforce as it starts its work.

We do not have comments on specific disclosure indicators and metrics, but we would like to raise a general point about the potential for difficulties in sourcing and compiling decision-useful metrics on certain social themes. Whilst practices are evolving rapidly, and there are certain examples of very good practice already in social- and inequality-related disclosures, many companies and investors face challenges in both selecting relevant metrics and gathering the data required to report on these.

Social- and inequality-related issues are very complex and for many of them, there is not one straightforward, widely-agreed upon metric. Metrics which do exist tend to have many assumptions 'baked in', and these often reflect the interests and priorities of certain stakeholders over others. The Taskforce will need to interrogate carefully the underpinnings and assumptions of metrics which it proposes to adopt from existing standards and frameworks.

In addition, weaknesses in disclosures may arise when sourcing data from across global value chains. Companies' and investors' ability to report on social- and inequality-related issues often depends on the level of data available across several different geographies and jurisdictions. Different governments take different approaches to what data can be lawfully collected (for example, data relating to protected diversity characteristics). As such, companies and investors should not be expected to include metrics based on data which simply cannot be sourced. Similarly, certain relevant data points are likely to be more fully captured by local, regional and national governments than by private actors. Whilst companies and investors should be encouraged to draw upon relevant public sources of such data in order to support their disclosures, the Taskforce should be mindful to avoid indirectly placing undue pressure on government actors to produce ever more data. Ultimately, it is important that the Taskforce consults thoroughly with a range of stakeholders, to ensure that its recommendations are both stretching enough to achieve its objectives, and practical enough to facilitate their adoption.

CGI hopes that the ambitious and laudable work of the Taskforce will go some way in addressing these challenges, and very much looks forward to engaging further with the Taskforce as its work progresses.

If you would like to discuss any of the above comments in further detail, please do feel free to contact me.

Yours faithfully,
Emily Ford
Policy Adviser
The Chartered Governance Institute UK & Ireland
eford@cgi.org.uk