ISSB Sustainability Reporting Standards:

The case for developing a 'social' standard as a matter of priority

Introduction

As the International Sustainability Standards Board (ISSB) considers its forward workplan, looking beyond its first draft standards on Climate and General Requirements, it should be a priority for the Board to develop a thematic standard on 'social-related' disclosures. This can provide a much-needed, coherent frame for the future integration of sector-specific standards that build on the work of the Sustainability Accounting Standards Board (SASB) and others regarding, for example, health and safety, and diversity, equity and inclusion, along with other aspects of human capital. But a general standard on social-related disclosures is a necessary precursor to addressing those more granular issues.

Social issues warrant this attention and priority for two primary reasons. First, they do so in their own right, both due to the frequent and growing business risks resulting from significant impacts on people in company operations and value chains; and due to the system-level risk that today's extreme inequalities pose to business and investors as well as societies. Second, they merit attention because action on social issues is essential to the success of endeavors to both mitigate and adapt to the effects of climate change, with all its attendant risks for business and the providers of capital.

We elaborate on these points below. We then touch briefly on the alternative ways an ISSB standard on social-related disclosures could be framed. Finally, we highlight a number of ways in which an ISSB standard on social-related disclosures should complement but go beyond ISSB's 'General Requirements' draft standard to address the particular risks and opportunities associated with social issues.

1. The case for a standard on social-related disclosures in its own right

a) Business risks and opportunities associated with social impacts

Social issues represent a broad range of phenomena that stem in good part from the positive and negative ways that business can impact the wellbeing of people – as individuals, groups or societies – and the integrally related risks and opportunities for business itself. The key categories of stakeholder concerned are a company's own workforce, the workers in its value chains, affected communities, and consumers and end-users. Typical issues range from health and safety and diversity and inclusion to forced labor, child labor and workers' wages and benefits, to effects on the livelihoods and resilience of indigenous peoples and other communities, to people's access to clean water, the effects of pollution on health, freedom of expression and privacy, and more.

There is compelling evidence that significant adverse impacts on people in company operations and value chains generate reputational, operational, legal or regulatory risks for business, resulting in material financial risks over the short, medium or long term. We see this from the recruitment, retention and productivity challenges documented among companies paying their workers below a living wage[1]; to the increase in legislation and regulations targeting companies with forced labor in their supply chains[2]; to the ability of communities impacted by infrastructure or mining to shut down operations, affect licenses, pursue formal complaints and secure media coverage[3]; to the backlash against social media platforms that enable the incitement of violence, from Myanmar to the United States[4].

Conversely, where a company actively pursues positive social outcomes in its operations or value chain, it can enhance its reputation, resilience and attractiveness as an employer and partner. We see this where companies gain recognition for moving toward living wages for their workforce and supply chains and enhancing benefits for their lowest-paid workers; where they get ahead of regulatory developments on human rights due diligence by embedding good practices across their business; where their efforts to build robust relationships with communities round their facilities enable operations to proceed without disruption, helping them secure future licenses or contracts; and where they develop alternative business models that enable user data to be properly protected. Companies also realize opportunities when they advance beneficial products or services that address pressing social needs, in particular those of vulnerable, under-served or marginalized groups.

There is an increasingly straight-line connection being made between significant impacts of business on people (negative or positive) and business risks and opportunities. This is partly due to more evidence of such connections coming to light. It is also because the forces that create these connections – legislative and regulatory developments; lawsuits and complaints; employee and consumer expectations; media and civil society coverage – are growing and growing fast. Indeed, the ISSB's Staff Paper points to the already substantial levels of investor interest in a whole range of social issues, particularly when framed as human rights. Moreover, CDSB's Framework for Reporting Environmental and Social Information – a founding guidance document of the ISSB – clearly reflects and illustrates the kinds of connections pointed to here and their relevance to reporting on enterprise value.

b) The system-level risk of inequality

It is also widely recognized that we face a system-level risk in the form of the extreme inequalities that today characterize many developed and developing economies alike. 'Inequality' – when understood more broadly than income inequality alone, to include related inequalities of wealth and opportunity – is to a great extent the product of practices (by both business and government) that have helped externalize risks and costs onto the most vulnerable people in society over the last several decades.

[1] https://justcapital.com/reports/worker-financial-wellness-initiative/
[2] See https://www.nytimes.com/2022/06/22/us/politics/xinjiang-uyghur-forced-labor-law.html; and https://www.europarl.europa.eu/news/en/agenda/briefing/2022-06-06/13/meps-set-to-call-for-import-ban-on-products-made-with-forced-labour; and https://www.business-humanrights.org/en/latest-news/australia-bill-introduced-to-ban-imports-linked-to-uyghur-forced-labour/
[3] https://shiftproject.org/resource/costs-of-company-community-conflict-in-the-extractive-sector/
[4] https://www.bbc.com/news/world-asia-59558090; https://www.npr.org/2022/07/13/1111341161/how-trumps-will-be-wild-tweet-drew-rioters-to-the-capitol-on-jan-6

The staff paper prepared for the ISSB's 18 July 2022 meeting noted both the vast scale of income inequality and the risk it represents for business and the providers of capital.[5] The Business Commission to Tackle Inequality, to which the ISSB Staff Paper refers, recognizes that income inequality cannot be considered separately from the inequalities of opportunity that underpin them. It further notes that today's extreme levels of inequality have led to the erosion of social cohesion, to diminishing trust in institutions and to mounting civil and political conflict. And it underlines that we are at a critical juncture, where '[t]he high level and structural nature of inequality today have made it a systemic risk – one that is threatening not only individual companies or communities, but entire economies and societies'.[6]

In sum, business faces considerable risk from the destabilizing effects of inequality. At the same time business practices can play a significant role in either exacerbating or mitigating these inequalities and therefore increasing or reducing the associated risks. As such, it is both important and pressing for sustainability disclosures to include information on companies' roles with regard to the social issues that underpin inequality, from wages, benefits and precarious forms of work to diversity, equity and inclusion, to interactions with poor and marginalized communities. This will be essential if the providers of capital are to understand and take account of how the businesses they support are contributing to, or detracting from, growth, stability and financial (as well as societal) value.

2. The case for a standard on social-related disclosures as an essential counterpart to climate standards.

Social issues also demand attention from the ISSB because they are integrally bound up with the success of measures to address climate change. The absence of appropriate disclosures on social-related matters will leave the market lacking information that is essential to understand whether and to what extent companies are likely to meet their climate commitments.

In the introduction to the Brundtland Commission's 1987 report 'Our Common Future', which first defined sustainability development, Brundtland observed that: "A world in which poverty and inequity are endemic will always be prone to ecological and other crises." In other words, it is not only the case – as we often see reflected – that inequalities and wider social harms are at risk of being increased by the effects of climate change, but also that a failure to address inequalities and other social harms tied to business practice will reduce the chances of successfully limiting climate change. This may, again, be for systemic or company-specific reasons.

a) The need to address inequality to secure progress in tackling climate change

When extreme inequalities are not effectively addressed, policies and strategies designed to tackle climate change are open to challenge. They are particularly under assault from groups that already see themselves to be losing out from political, economic and other 'elite-driven' decisions. This is not about political predispositions, but about natural human reactions of skepticism and resistance when people who are already socially or economically disadvantaged observe that a system consistently distributes

[5] https://www.ifrs.org/content/dam/ifrs/meetings/2022/july/issb/ap1a-items-to-be-considered.pdf
[6] https://tacklinginequality.org/files/introduction.pdf

value and opportunity in ways that compound their disadvantage. It will take concerted efforts – by business as much as government – to reduce inequalities and rebuild trust in both public and private sector institutions, if the desired pace of change in climate-related policies, practices and outcomes is to materialize.

b) Social impacts as a barrier to business success in addressing climate risk

If companies' own efforts to address climate risk and enable the transition to a carbon neutral economy are to succeed, they also need to factor in the ways in which they directly affect workers and communities. Transition or adaptation plans that assume that these stakeholders will fall in line with a company's approach, may be fundamentally flawed where the company has not understood and factored in their perspectives. For example, smallholder farmers whose practices exacerbate deforestation may not buy into a company's ideas for moving them to better practices or alternative crops if they fear that their already low income will be further undermined. Business or investor strategies to move to solar energy that do not factor in ways to deal with forced labor in solar panel supply chains will face risk of political, regulatory and reputational backlash that can undermine the success of such strategies.

Conversely, active partnerships with indigenous peoples can be central to tackling deforestation, given these communities' historical role as stewards of their environment. But such partnership requires skills and investment in these relationships to succeed. The recognition that education for girls is a powerful means of reducing CO2 emissions can make strategies to reduce child labor and secure living wages for working adults not just a way to mitigate social-related risks but also central success factors for reducing climate risk.[7]

In sum, providers of capital concerned with climate risk and its effects on enterprise value need information about how companies are addressing social issues that affect both the trajectory of inequalities and the likely success of their climate strategies. Absent such information, markets will draw flawed conclusions as to how best to allocate their capital. While the ISSB should certainly integrate a stronger recognition of relevant social factors directly into its Climate standard[8], such measures will not be sufficient to address the broader elements of companies' social performance that dictate whether climate strategies succeed. A stand-alone thematic standard on social-related disclosures is essential to set that framework.

3. The framing of a new standard on social-related issues

The term 'social' or 'social-related' is typically used for issues related to human and societal welfare, whether viewed through the lens of 'wellbeing', 'human rights' or 'human and social capital', or as part of the broader 'ESG' framework that has gained currency (and some critique) in investor and business circles. The ISSB Staff Paper of July 2022 provides 'a preliminary list of broadly defined items to consider as the ISSB prepares a Request for Information to obtain stakeholder feedback on its forward-

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[7] See examples from Project Drawdown: https://drawdown.org/solutions/family-planning-and-education; and https://drawdown.org/solutions/indigenous-peoples-forest-tenure
[8] See Shift's comments on the Climate Exposure Draft at: https://shiftproject.org/comments-issb-draft-climate/

looking agenda priorities'. Its review of various general and specific topics that the ISSB might take up does not include the term 'social', but speaks to the potential for standards on 'inequality' or on 'human rights'. The paper notes overlaps in the issues these terms are understood to cover. In practice, that overlap is extensive:

- 'Social' issues are fundamentally about positive and negative impacts on people – as individuals, groups or societies – and related business risks and opportunities. That covers companies' own workforces (employees and contractors), workers in their value chains, communities affected by their operations or value chains, and people affected by their products or services.

- 'Human rights' look at the same array of impacts on the same groups of people, but provide a threshold: the point at which impacts undermine people's basic dignity and equality as human beings. That threshold determines the issues that companies are expected to address under international standards on business respect for human rights, which are increasingly being translated into legislation and regulations.[9] Unsurprisingly, it is also in situations where business practices push or keep people below the human rights threshold that we see a strong convergence with risks to business.

- 'Inequality' – including inequalities of income, wealth and opportunity – has reached today's levels due in good part to business practices that externalize risks and costs onto vulnerable people, undermining their human rights. Human rights impacts, broadly understood, are therefore both cause and result of such inequalities.

In essence, each of these framings for a broad ISSB standard – 'social' or 'social-related', 'human rights' and 'inequality' – addresses much of the same terrain when it comes to the risks and opportunities that result from business impacts and dependencies on people. 'Human rights' as a concept has the merit of being underpinned by international standards with clarity on what is expected of business in terms of their conduct; 'inequality' can be politically more palatable and relatable and is increasingly recognized as a system-level risk of importance to providers of capital among others; 'social' is familiar from the ESG parlance that is current in the financial sector in particular, as well as the field of human development. All three concepts cover positive as well as negative impacts and related opportunities as well as risks for business.

Each of these three concepts could set the backdrop for future specific disclosures on risks related to workforces, value chain workers, affected communities and the people impacted by products and services. Each of the three would provide a framework within which more specific issues raised in the

[9] The UN Guiding Principles on Business and Human Rights set the global standard of conduct for business (and related duties of states) regarding impacts on people's human rights and are mirrored in the OECD Guidelines for Multinational Enterprises and numerous regional, industry and issue-specific standards, frameworks, principles and commitments. The core concept of human rights due diligence set forth in the UN Guiding Principles is increasingly being translated into national laws and regulations, whether with regard to the full array of business impacts on human rights or specific issues such as forced labor and child labor.

ISSB Staff Paper could be addressed, such as diversity, equity and inclusion, as well as the pressing issue of living wages. In sum, any of the three could be considered to provide a sufficiently broad and inclusive framing to sustain a thematic ISSB standard that would embrace all the key ways in which risks to business can be a product of significant impacts on people.

4. The need for a standard on social-related disclosures above and beyond ISSB's 'General Requirements' standard

The ISSB's draft General Requirements standard offers in many regards a strong underpinning for a range of other standards that the ISSB will develop in the future.[10] However, it is not sufficient as a basis from which to move directly to sector-specific social standards such as those developed by SASB. A general standard on social-related disclosures is first needed to set out some of the particular cross-cutting factors regarding business risks and opportunities that derive from impacts on people and society, and which are critical to ensure that corporate disclosures meet the needs of providers of capital. These span the areas of governance, strategy, risk management and metrics and targets. They include:

With regard to governance:

- The access that boards and top leadership have to the views and experiences of affected stakeholders to understand how impacts arise, the risks that can result, and what mitigation strategies are likely to be effective.
- Consideration of the features of business models that are often a source of financial risk due to the way they generate or exacerbate significant impacts on people.

With regard to strategy:

- The need for the inter-relationships between social issues on the one hand and climate, environmental and governance risks and opportunities on the other hand, to be properly understood and integrated into strategy.
- The need for social factors to be integrated into strategies addressing climate mitigation and adaptation, as well as biodiversity loss, if these are to succeed.

With regard to risk management:

- The expectation under international standards, and increasingly in national laws, that companies conduct human rights due diligence to identify and address significant impacts on people, and their implications for legal liability as well as reputational and operational risks.
- The particular relevance of grievance mechanisms, beyond whistleblower mechanisms, in enabling the early identification of significant social impacts and related business risks, and in providing for their effective resolution.

[10] See Shift's submission with recommendations for strengthening the ISSB General Requirements Exposure Draft at: https://shiftproject.org/comments-issb-draft-general-requirements/

- The central role of collaborative initiatives with other companies and stakeholders in mitigating social risks in shared value chains, and other key methods for effectively addressing the risks and opportunities that arise from social harms.

With regard to targets and metrics:

- The particular qualities that make targets, indicators and metrics meaningful and insightful in the context of social issues, including the sources of information and modes of data gathering required.
- The role of certain social indicators and metrics in signaling the likelihood that social risks will be identified and successfully managed or, conversely, the likelihood that they are being missed or mismanaged.

Conclusion

For the above reasons, Shift urges the ISSB to take up discussion of a standard on social-related disclosures as a matter of priority in its near-term workplan. Doing so will meet pressing needs regarding risks to enterprise value resulting both from companies' specific impacts and dependencies on people and from the system-level risk of inequality. It will also ensure that ISSB's climate disclosures are complemented by social-related information that will be essential to any holistic assessment of companies' climate strategies and their likelihood of success. In short, it is an indispensable building block in any body of sustainability-related disclosures that intends to ensure the providers of capital can make informed economic decisions.