

## SHIFT'S SUBMISSION TO THE ISSB'S CONSULTATION ON AGENDA PRIORITIES:

### Response to Survey Questions 5 and 6

#### Introduction

1. The ISSB has proposed that two of the four options for inclusion in its agenda priorities for the next two years could be 'human capital' and 'human rights': both social-related topics. This is an important and welcome signal, which in turn reflects the significance of these issues to the interests of investors. We can reasonably expect investor interest in reporting on social-related issues to continue to grow, and to do so relatively rapidly, in light of regulatory and legislative developments related to human rights due diligence, which will affect tens of thousands of companies directly or indirectly through their partnerships and supplier relationships.
2. Shift therefore strongly endorses the need for the ISSB to include within its near-term agenda research work that would lead towards a standard on social-related financial disclosures. However, there are real and significant challenges with addressing social issues through its proposed approach:
  - a. The ISSB recognizes in its consultation document that the proposed categories of 'human capital' and 'human rights' overlap in many regards and that the ISSB would need to *"seek to determine more clearly the boundaries and connections between the two topics."*
    - Yet there are no such clear boundaries to be drawn between these categories. Rather, they offer two approaches to or 'lenses on' social issues that serve somewhat differing purposes while addressing many of the same topics with regard to workers.
    - Addressing these topics through two separate projects – whether in parallel or sequentially if resources are constrained – will compound existing confusion in the marketplace regarding how to understand, navigate and assess the materiality of distinct social issues.
    - Addressing either both or just one of these projects would undermine the ISSB's objective of setting the global building blocks for sustainability reporting and supporting interoperability with jurisdictional standards.<sup>1</sup> It

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<sup>1</sup> "ISSB Standards are designed to facilitate a building-blocks approach. The building block approach would allow jurisdictions to meet their corporate reporting needs by adopting the ISSB standards and adding disclosure requirements if necessary. Thus, interoperability is a consideration for all of the ISSB's current and future work, including future research and standard-setting projects", Request for Information, p.17

- would miss the one-time opportunity to define a coherent architecture for social-related financial disclosures.
3. However, the ISSB's own stated objectives, together with its existing work and resources, offer a clear, alternative pathway forward. The ISSB could – and we make the case here that it should – pursue one single research project that would support the development of a cross-cutting social standard.
  4. This kind of standard would:
    - **encompass issues relevant to both human capital and human rights**, avoiding any need to draw boundaries between them, and without needing to address the specific topics they cover in detail, and (see section A)
    - **meet the most essential needs of the providers of capital regarding material social-related issues** by enabling them to assess the extent to which any company is equipped in its core governance, strategy and risk management to identify and manage social-related risks in its operations and value chains (see section B)
    - **establish the global, foundational building blocks for reporting on social issues**, following much the same approach as the ISSB Climate standard S2: mirroring the structure of standard S1 on General Requirements, but extending beyond its content by addressing significant factors particular to social-related issues (see section C)
    - **be coherent and interoperable with the existing European Sustainability Reporting Standards (ESRS) on social issues**, including by providing a common understanding of the relevant architecture of social-related topics in sustainability reporting (see section D)
    - **Provide a resource-efficient project that the ISSB could reasonably undertake in its immediate work plan**, being (a) broader but less granular than either of the two proposed projects, (b) able to leverage substantial existing resources including the international standards on human rights due diligence and the ISSB's own CDSB Framework for Reporting Environmental and Social Information, (c) well-timed to benefit from the additional research resources and inclusive, consensus-building capabilities of the planned Taskforce for Inequality and Social-Related Financial Disclosures, due for launch in the first half of 2024 (see section E)

The following sections set out in more detail the rationale for the ISSB to adopt this approach.

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## A. Addressing both human capital and human rights.

5. In the Request for Information (RfI) that forms the basis of the ISSB's consultation on its agenda priorities, the ISSB recognizes that the categories of human capital and human rights are overlapping. It seeks to indicate some distinctions that could be drawn:
  - Topics indicated as relevant for the project on human capital include DEI, workforce investment, workforce costs and the alternative workforce (use of contingent labor, gig workers etc.).
  - Topics indicated as relevant for the project on human rights include the rights of workers in the value chain such as health and safety, fair wages, forced labor and child labor.
  - The RfI proposes to focus the human capital project on the workforce, while indicating the possibility of extending to 'labour conditions' in the value chain.
  - The RfI proposes to focus the human rights project on the value chain alone, to address both workers and communities.
  
6. In practice, these distinctions quickly break down. For example:
  - Issues of fair wages are prevalent and can raise material risks in company workforces, not just their value chains.<sup>2</sup>
  - Fair wages (workforce costs/investment, depending on perspective), non-discrimination (the focus of DEI programs) and health and safety are all human rights issues whether they occur in a company's workplace or in their supplier's workplace. They are equally factors affecting human capital.
  - The use of contingent labor or child labor similarly affects both human rights and human capital, wherever a worker works.
  - Forced labor and child labor are not uncommon in the workforces of listed companies in certain regions, which are often suppliers to listed companies in other regions. They can raise material risks wherever they arise in the value chain.<sup>3</sup>
  - A company may own factories where some of its products are made, while outsourcing to suppliers for others – the workers are no more or less

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<sup>2</sup> Just Capital reported in 2022 that their estimates “show that 51% of all the workers at Russell 1000 companies, who in total made up about 15% of the employed population in the U.S. in 2021, are not earning a family sustaining living wage”; see <https://justcapital.com/news/just-capital-and-new-data-partner-revelio-labs-find-about-half-of-russell-1000-employees-do-not-make-family-sustaining-wage-in-2022/#:~:text=In%20fact%2C%20our%20estimates%20show,our%20partners%20behind%20the%20MIT>

<sup>3</sup> These phenomena are also found in western workplaces, as recently witnessed in the US (<https://www.washingtonpost.com/made-by-history/2023/04/18/child-labor-returns/>), as well as raising material issues where they arise in supply chains (<https://www.cnbc.com/2023/04/17/feds-seize-goods-tied-to-forced-labor.html>), with increasing regulatory consequences ([https://ec.europa.eu/commission/presscorner/detail/en/ip\\_22\\_5415](https://ec.europa.eu/commission/presscorner/detail/en/ip_22_5415))

contributors of ‘human capital’ based on which factories they work in, and no more or less people with human rights.

7. The project on human rights recognizes that investors are also “*interested in understanding communities’ rights in an entity’s value chain (for example, rights of indigenous peoples, land and water impacts, and health impacts)*”. Clearly, these are relevant issues in the supply chains of various industries, including food and beverage and consumer goods companies. Yet it is odd to locate issues of communities’ rights solely in company value chains. Their prevalence and financially material implications in the context of companies’ direct operations have been documented for decades in the mining, oil and gas, agricultural and other industries, and are increasingly prevalent with regard to renewable energy as well.<sup>4</sup> Moreover, local workers in these industries frequently come from the same communities that are affected by company operations, such that impacts on the health, livelihoods and other rights of community members also affect their ‘human capital’ as members of the workforce.
8. The human rights project proposal excludes issues affecting consumers and end-users, including their human rights related to safety, access to information, privacy of their data and the extensive issues prevalent in public discussions today around the effects of technologies and social media on users’ mental health, as well as their use in ways that perpetuate discrimination or incentivize violence and abuse. The use of technologies within work settings is playing a role in the health of companies’ own workforces, and is relevant to both human capital and human rights.
9. In short, the proposal to identify boundaries between these categories of ‘human capital’ and ‘human rights’ cannot succeed. Proposals to focus a ‘human capital’ project on the workforce and a ‘human rights’ project on the value chain are also difficult to explain and sustain in practice. The distinctions between these categories lie not in any clear delineation of the topics they cover or the people they relate to, but in the approach that they bring to the assessment and measurement of these issues, and how this is used in decision-making.<sup>5</sup> The ISSB’s proposed approach therefore risks expending considerable resources without any prospect of arriving at clear and workable answers.

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<sup>4</sup> For recent examples see: <https://www.reuters.com/business/brazils-vale-fined-17-mln-brumadinho-tailings-dam-disaster-2022-08-15/>; <https://www.bbc.com/news/world-australia-54112991>. The mining industry, among others, has long recognized the critical need to mitigate negative impacts of mining activities on local communities and its implications for the success of business: <https://www.icmm.com/en-gb/guidance/social-performance/2022/tools-for-social-performance>

<sup>5</sup> Capitals Coalition and Shift, *Understanding business impacts on people: the complementary approaches of ‘business and human rights’ and ‘social and human capital’*, August 2023. Available at: <https://shiftproject.org/resource/understanding-business-impacts-on-people-the-complementary-approaches-of-business-and-human-rights-and-social-and-human-capital/>

10. By contrast, pursuing a cross-cutting thematic social standard along the lines proposed in this submission would provide the foundation for all these issues to be understood as relevant, yet without needing to address each sub-topic specifically or to differentiate between operations and value chain contexts, or different industries. The following sections explain the value to providers of capital of a standard that follows such an approach, as well as its feasibility for the ISSB in resource terms.

## **B. Meeting the most essential needs of investors for assessing the management of social risks**

11. The ISSB's RfI notes that some investors are interested in standards related to human capital while others express interest in standards related to human rights. The implicit assumption is that investors are looking first and foremost for specific data on specific topics that could fall under one or other category (or both).

12. While it is certainly the case that different investors are pursuing information on a range of specific social topics, this overlooks the reality that there is a more *generalized* investor interest and need to understand how effectively companies they invest in assess and manage material risks that arise from their significant impacts and dependencies on people – whether these are workers in the workforce or value chain, communities, or consumers and end-users.<sup>6</sup>

13. This interest is in good part a reflection of the understanding that material social issues can be widely varying, but that their identification and management have to be underpinned by a common process of human rights due diligence, as articulated in the international standards of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. This universal blueprint for identifying, assessing, managing and tracking business-related impacts on people applies regardless of whether the issues that any company ultimately identifies as material – based on its unique activities, relationships and circumstances – are issues that predominantly affect workers, communities, or consumers and end-users, or whether they cut across all categories.

14. Human rights due diligence is the process through which companies identify and assess how their own activities and business relationships across their value chain may lead to negative impacts on people's human rights in connection with their operations, products and services. It is informed by ongoing engagement with

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<sup>6</sup> The findings in a recent report by UN-backed Principles for Responsible Investment highlights that, "Investors need information to fully understand how companies identify and assess risks to and impacts on people; how effective management processes are in mitigating or avoiding these impacts; and how the perspectives of affected stakeholders are incorporated"; see: <https://www.unpri.org/human-rights/what-data-do-investors-need-to-manage-human-rights-risks/10856.article>

affected stakeholders or their legitimate representatives. It allows for the prioritization of the most severe impacts, where not all impacts can be addressed at once. It requires action to prevent or mitigate the impacts identified, and an appropriate role in enabling remedy where harms occur, including through the availability of operational-level grievance mechanisms. It includes the need for processes and indicators to track the effectiveness of these actions; and communication with stakeholders – including affected stakeholders – with regard to progress and challenges.

**Illustration of the key Human Rights Due Diligence components set out in the UN Guiding Principles on Business and Human Rights**



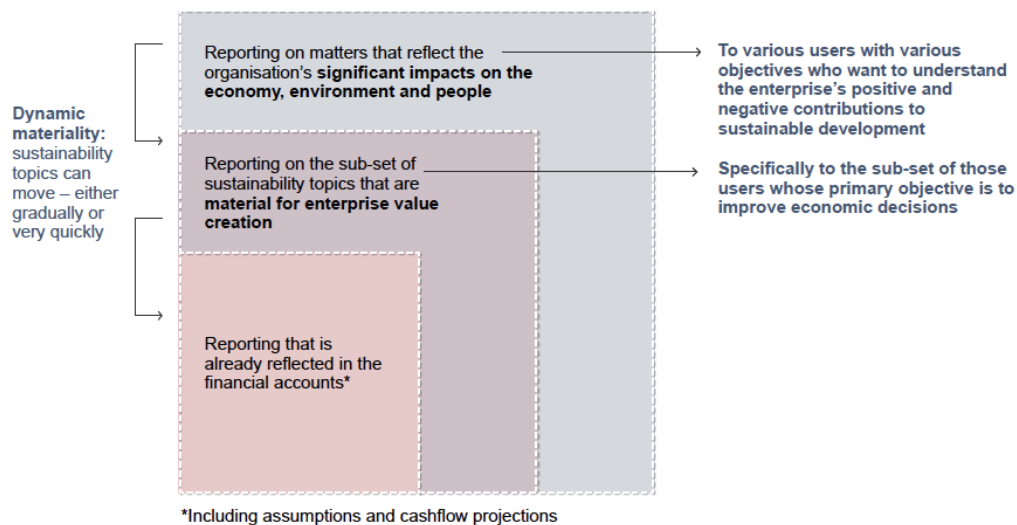
*Graphic by Shift, 2023*

15. Expectations that companies conduct human rights due diligence are increasingly being mainstreamed in national policy, guidance, regulations and legislation, and being referenced in lawsuits, judicial opinions and administrative complaints mechanisms. As a result, the financial materiality of many human rights impacts is becoming consistently and inexorably more apparent. Annex A illustrates the range and speed of these developments, and the breadth of jurisdictions where they have direct or indirect effect.
16. Given this backdrop, providers of capital are reflecting the importance of clients/investees conducting human rights due diligence (and seeking this as part of their own due diligence) in a variety of ways. Stock exchanges are also increasing their requirements and guidance regarding disclosures on human rights and human rights due diligence. Annex B provides examples of these developments.
17. For many providers of capital, their interest in understanding how companies address significant impacts on human rights stems from their own purpose, values or client expectations. Many more providers of capital recognize that these most

severe impacts on people are a critical source of financial risk and that the means to address the financial risks is for companies to prevent or mitigate the impacts on people that are their root cause.<sup>7</sup>

18. The three founding organizations of the ISSB (CDSB, IIRC and SASB), together with the Global Reporting Initiative and the Carbon Disclosure Project, articulated this critical relationship between significant impacts on people (and planet) and financial risks in their joint paper entitled ‘Statement of Intent to Work Together Towards Comprehensive Corporate Reporting’. The organizations concerned recognized the ‘dynamic’ nature of the concept of materiality given that significant impacts on the economy, environment and people can – gradually or very quickly – become material for enterprise value creation.<sup>8</sup> Likewise, the European Sustainability Reporting Standards (ESRS) make the same relationship clear when they state that in conducting double materiality assessments: “[i]n general, the starting point is the assessment of impacts, although there may also be material risks and opportunities that are not related to the undertaking’s impacts.”<sup>9</sup>

**Graphic: “Dynamic Materiality” from “Statement of Intent to Work Together Towards Comprehensive Corporate Reporting”<sup>10</sup>**



<sup>7</sup> Those root causes often lie in an aspect of a company’s business model, as illustrated in the Business Model Red Flags developed by Shift. See <https://shiftproject.org/resource/business-model-red-flags/red-flags-about/>. These Red Flags are increasingly used by investors to understand and address the sources of social-related risks and to inform their analysis and engagement strategies.

<sup>8</sup> See: <https://sasb.org/wp-content/uploads/2023/01/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf>

<sup>9</sup> ESRS 1, Section 3.3, para 38. The caveat provided here is to recognize that system-level risks such as climate change and inequality may not always be a product of particular impacts of a given company, but may nevertheless raise material risks for that company.

<sup>10</sup> Taken from: <https://sasb.org/wp-content/uploads/2023/01/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf>, p.5

19. In short, human rights due diligence is not only the recognized international standard with regard to the management of the most significant impacts on people that can result from business practices, but it is also the basis for the identification and management of the resulting risks to companies' own financial success and sustainability.
20. In developing a cross-cutting social standard, the ISSB would be able to leverage the international standards of the UN Guiding Principles and the OECD Guidelines as the accepted basis for companies to demonstrate how well-positioned they are to understand and address social-related risks. They provide a common baseline for the providers of capital to gain confidence in whether companies they finance are equipped to manage these issues effectively, prior to any need to delve into specific topics and metrics, and enabling them to cover a wider waterfront of issues before doing so. Indeed, absent information that enables these insights, providers of capital themselves risk developing or reinforcing blind spots based on assumptions that they should just focus on certain data points on commonly-disclosed social issues that may not in fact be the most material.

### **C. Extending beyond S1 on General Requirements, following the model of S2 on Climate**

21. By developing a cross-cutting social standard, the ISSB would be following the same approach that it has already adopted on climate under its standard S2. In certain areas, S2 mirrors S1 on General Requirements, while specifying 'climate-related risks and opportunities' as the focus of disclosures, rather than 'sustainability-related risks and opportunities' in general. In other areas – notably under the pillars of 'strategy' and 'metrics and targets' – the content of S2 varies more sharply from S1.
22. A cross-cutting social standard could take the same approach, but would likely vary to a greater degree from S1 overall. While S1 provides a strong general foundation for financially material topics where no specific standard exists, the fact that it needs to service all such potential topics means that it falls substantially short in some critical areas of disclosure that investors need when it comes to social-related risks and opportunities.
23. The following is an indicative list of particular issues that a cross-cutting social standard might need to address, extending beyond the content of S1 while remaining of general relevance to all companies and with regard to the range of potential social issues that may be material for any one company. It is not intended as the design of a future ISSB social standard or a finite or worked-through set of proposals, but simply to give an idea of the kinds of areas that the ISSB could explore for potential inclusion through a research project under its work plan:



**Governance:**

- access to specific skills and expertise relevant to social-related issues;
- specific evidence of how governing bodies are informed about significant risks and opportunities and exercise oversight;

**Strategy:**

- the relationship between risks and the business model not just insofar as social-related issues pose a risk to the business model, but as the business model is a source of significant impacts on people that in turn lead to financial risk;
- the relationship between human rights due diligence and strategy;
- the relationship between social-related risks and opportunities and climate and environmental risks and opportunities;

**Risk Management:**

- key elements of human rights due diligence as they pertain to the identification, prioritization and management of social-related risks and opportunities;
- the particular role of engagement with affected stakeholders – workers in the workforce; value chain workers; affected communities and consumers and end-users – with regard to the identification, management and measurement of social-related risks and their underlying impacts;
- The existence and effectiveness of operational-level grievance mechanisms available to affected stakeholders, in line with international standards, including as a means of early identification and management of impacts and risks, and as a means of providing effective remedy;
- Approaches to responsible exit from situations of significant negative impact where leverage to mitigate those impacts is absent and cannot reasonably be attained;

**Metrics and Targets:**

- Potential inclusion of a limited number of generally material workforce-related. A number of the following may be found to merit inclusion:
  - Workforce composition (full-time, part-time, contingent workers)
  - Workforce health (physical and mental)
  - Diversity, equity and inclusion
  - Compensation, including workforce below a living wage
  - Workforce empowerment (union representation, skills development)

**D. Interoperability with the ESRS in its social architecture**

24. The European Union has now adopted the first set of its European Sustainability Reporting Standards (ESRS), encompassing cross-cutting disclosure requirements regarding all sustainability-related matters (comparable to the ISSB's S1 standard on General Requirements), as well as five environmental standards (including one on

climate), four social standards, and one on governance (supplementing governance disclosures in the cross-cutting standard).

25. The four social standards offer a clear and coherent architecture for understanding the array of social issues that can be material – whether from an impact materiality or financial materiality perspective. They are built around the four broad stakeholder groups that a company can impact through its operations and value chain, and on which it depends:
- its own workforce (including both direct employees, self-employed contractors and individuals employed through third-party agencies);
  - workers in its value chain (upstream and downstream);
  - affected communities (whether affected by its operations or in association with its value chain); and
  - consumers and end-users.
26. The architecture of the ESRS social standards further indicates (non-exhaustively) the typical issues/topics that can arise with regard to each of these four stakeholder groups, ranging from privacy to access to water to freedom of association to fair wages and the specific rights of indigenous peoples. This architecture offers a ready means for companies and their providers of capital to navigate the terrain of social issues, driven not by the latest news article, campaign, legal development or issue on a tick-list, but by thinking through how a company may impact or depend on each group, with an eye to the specific issues that most typically arise.

THE PEOPLE-CENTERED ARCHITECTURE OF THE EUROPEAN SUSTAINABILITY REPORTING STANDARDS			
OWN WORKFORCE	VALUE CHAIN WORKERS	AFFECTED COMMUNITIES	CONSUMERS & END-USERS
Working Conditions	Working Conditions	Communities' economic, social and cultural rights	Information-related impacts
<ul style="list-style-type: none"> <li>Secure employment</li> <li>Working time</li> <li>Adequate wages</li> <li>Social dialogue</li> <li>Freedom of association</li> <li>Collective bargaining</li> <li>Work-life balance</li> <li>Health &amp; safety</li> </ul>	<ul style="list-style-type: none"> <li>Secure employment</li> <li>Working time</li> <li>Adequate wages</li> <li>Social dialogue</li> <li>Freedom of association</li> <li>Collective bargaining</li> <li>Work-life balance</li> <li>Health &amp; safety</li> </ul>	<ul style="list-style-type: none"> <li>Adequate housing</li> <li>Adequate food</li> <li>Water and sanitation</li> <li>Land-related impacts</li> <li>Security-related impacts</li> </ul>	<ul style="list-style-type: none"> <li>Privacy</li> <li>Freedom of expression</li> <li>Access to (quality) information</li> </ul>
Equal treatment and opportunities	Equal treatment and opportunities	Communities' civil and political rights	Personal safety
<ul style="list-style-type: none"> <li>Gender equality and equal pay for equal work</li> <li>Training and skills development</li> <li>Employment and inclusion for persons with disabilities</li> <li>Measures against violence and harassment in the workplace</li> <li>Diversity</li> </ul>	<ul style="list-style-type: none"> <li>Gender equality and equal pay for equal work</li> <li>Training and skills development</li> <li>Employment and inclusion for persons with disabilities</li> <li>Measures against violence and harassment in the workplace</li> <li>Diversity</li> </ul>	<ul style="list-style-type: none"> <li>Freedom of expression</li> <li>Freedom of assembly</li> <li>Impacts on human rights defenders</li> </ul>	<ul style="list-style-type: none"> <li>Health and safety</li> <li>Security of a person</li> <li>Protection of children</li> </ul>
Other work-related rights	Other work-related rights	Rights of indigenous peoples	Social inclusion
<ul style="list-style-type: none"> <li>Child labor</li> <li>Forced labor</li> <li>Adequate housing</li> <li>Privacy</li> </ul>	<ul style="list-style-type: none"> <li>Child labor</li> <li>Forced labor</li> <li>Adequate housing</li> <li>Privacy</li> <li>Water and sanitation</li> </ul>	<ul style="list-style-type: none"> <li>Free, prior and informed consent</li> <li>Self-determination</li> <li>Cultural rights</li> </ul>	<ul style="list-style-type: none"> <li>Non-discrimination</li> <li>Access to products and services</li> <li>Responsible marketing practices</li> </ul>

Excerpt from ESRS 1 AR 16 "Sustainability matters covered in topical ESRS" (S1 to S4). Graphic by Shift.



Graphic by Shift, 2023

27. The ESRS social standards do not offer metrics or indicators for each of the indicated topics for each stakeholder group – at least at this point. They provide the list of topics per social standard as a reference point to assist in the double materiality assessment process, and only include metrics in disclosure requirements under the first social standard on ‘own workforce’.<sup>11</sup>

28. The proposal for the ISSB to begin work on social issues through the lens of ‘human capital’ and/or ‘human rights’ is at odds with this architecture. Rather than offering its own logic, the overlapping nature of the proposed categories risks fostering continued confusion as to how to navigate and understand the potential relevance, relationships between, and materiality of social issues. This approach would once and for all undercut the potential for interoperability between the ISSB and EU social sustainability reporting standards.

<sup>11</sup> The metrics under the ‘own workforce’ standard do not cover all the topics listed as relevant to that standard. Metrics related to the other social standards are likely to follow in future additions, with many or most of them likely to be differentiated by industry.

29. The ISSB could, in principle, adopt the exact same approach as the EU by developing – or explicitly committing at this point to develop – four social standards covering the same stakeholder groups. However, the ISSB is clear that its resources are constrained, and it seems unlikely that this approach will find support. A cross-cutting social standard provides the alternative way for the ISSB to enable interoperability with the ESRS while also setting the international building blocks for social sustainability financial disclosures that will be equally relevant and important for other jurisdictions. Five key factors make this possible:
- a. The first five disclosure requirements of the four ESRS social standards are essentially the same, with minor adjustments to the specificities of each stakeholder group. (As noted, only the standard on ‘own workforce’ goes beyond those five disclosure requirements to add a number of specific metrics.) These five common disclosure requirements are tantamount to a kind of cross-cutting social standard in the ESRS context. They provide the counterpart to a potential cross-cutting ISSB social standard, which would bring the equivalent common elements (applying the ISSB’s single financial materiality lens) together in one standard.
  - b. Just as each of the four ESRS social standards is built around the four-part TCFD/ISSB framework of ‘governance’, ‘strategy’, ‘risk management’ and ‘metrics and targets’, so the ISSB cross-cutting social standard would logically follow the same structure, in line with its approach to its climate standard, S2.
  - c. In one or more of the sections on ‘governance’, ‘strategy’ and ‘risk management’ the ISSB standard should be clear that the relevant scope for social-related financial disclosures are impacts and dependencies on the four stakeholder groups that are articulated in CDSB’s Framework for Reporting Environmental and Social Information (CDSB Framework)<sup>12</sup>, and which also form the basis of the ESRS social standards.
  - d. For an ISSB social standard, as for the ESRS social standards, the international (and increasingly legislated) standards for human rights due diligence would provide the critical underpinning. They provide the globally accepted management framework for companies’ impacts (and associated dependencies) on people. As stated in the CDSB Framework – a founding resource and guidance document of the ISSB:  
*“When it comes to social impacts, there is an international consensus regarding corporate responsibilities for adverse human rights impacts, as set out in the UN Guiding Principles on Business and Human Rights. This*

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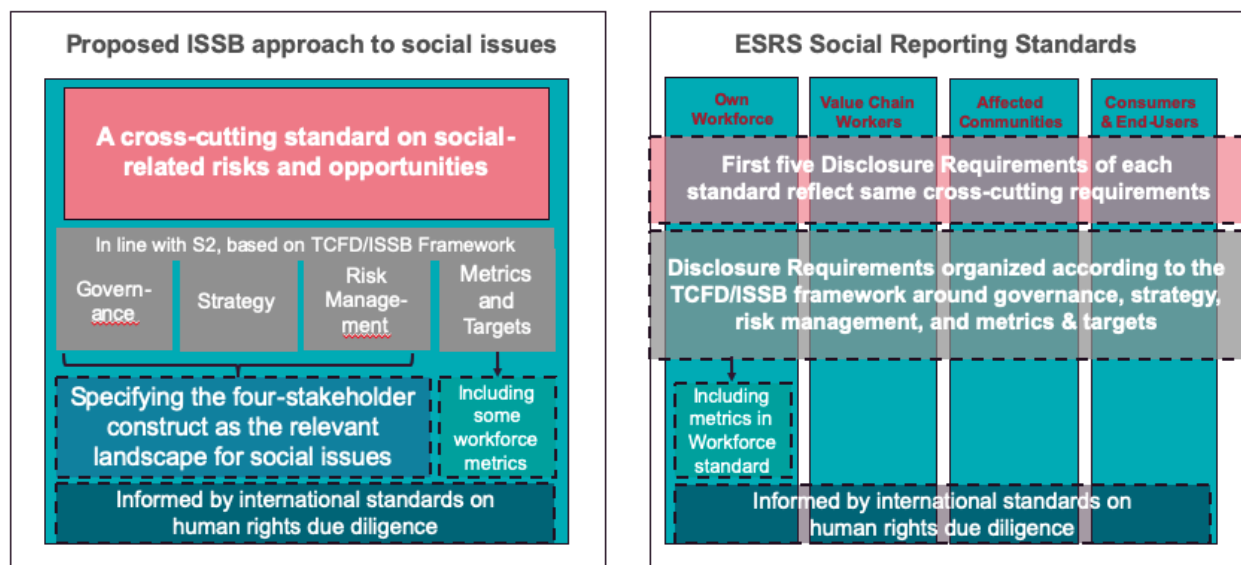
<sup>12</sup> CDSB Framework for Reporting Environmental and Social Information, January 2022, p. 8 and Principle 1, p.14

*international standard sets out the due diligence steps that organisations should follow to identify and assess adverse human rights impacts with which they may be involved, of which the most severe impacts tend to converge with risks to business, and provides a foundation for identifying material social information.”<sup>13</sup>*

- e. Given that there are workforce risks and dependencies that are typically material for any company, the ISSB social standard could include a limited number of metrics of particular importance in this regard, just as the ESRS do under the ‘own workforce’ standard. This would also reflect the model of the ISSB climate standard S2, with its ‘metrics and targets’ disclosures on GHG emissions and carbon credits.

**30.** As such, an ISSB cross-cutting social standard could both mirror the ISSB’s approach to climate in S2 and reflect its own specific mandate regarding financial materiality, while providing interoperability with ESRS social standards, as well as – importantly – a clear and broad foundation on which other jurisdictions could also build.

**Graphic: Interoperability between proposed ISSB cross-cutting social standard and ESRS social standards**



Graphic by Shift, 2023

<sup>13</sup> Ibid, Principle 1.4a, p.16

## **E. Providing a resource-efficient project that the ISSB could undertake in its immediate work plan**

31. The ISSB makes clear in its RfI that it has limited resources available and will need to make choices regarding its future agenda priorities. It states that:
- “Potential new sustainability-related research and standard-setting projects described in Appendix A are all research projects that are considered to be large projects. These projects are all expected to require extensive research and analysis of both external resources and the ISSB’s resources to reach consensus on the issue(s) being examined by the projects and advance to standard setting, if appropriate.”*
32. It is important and welcome that the ISSB is proposing to start work on social-related standards. It would certainly appear untenable to proceed through the next two years of its work without doing so, given the sheer range of social-related issues that are surfacing in headlines, legislative and legal processes, as well as the interest and need among providers of capital for improved disclosures in this domain. Yet proceeding with ‘large’ projects on both human capital and human rights would imply – based on the ISSB’s own explanations – that it could then not take forward in-depth work on biodiversity, which may be equally difficult to justify. And, as discussed above, proceeding with both projects would also undermine the ISSB’s proposed ‘building block’ approach and aims to support interoperability with existing and future jurisdictional standards; while proceeding with only one or other project raises the same problems. Moreover, the array of significant ‘sub-topics’ under both these projects is considerable, and the ISSB’s resource constraints would force hard-to-justify choices that would further undermine the creation of a clear and coherent foundation for social-related financial disclosures.<sup>14</sup>
33. The way to rationalize this set of resource dilemmas is through a cross-cutting social standard that does not seek to get into all the sub-topics for human capital and human rights reflected in the RfI, but takes a broader and less granular approach. In doing so, it would, as discussed above, provide the disclosures that providers of capital need in order to be able to assess *in general terms* whether companies they invest in are equipped to identify and effectively manage the array of social-related risks that are likely to be material for their company. Rather than favoring disclosures on risks related to one or two stakeholder groups, which may be of varying relevance to

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<sup>14</sup> We fully recognize that social-related standards that focus on specific sub-topics will be needed in the future, whether at a thematic level or through an extension of SASB’s industry-specific standards. The point we seek to emphasize here is that this is the wrong starting point for the ISSB if it is to meet its own ambitions as the international body charged with developing sustainability-related financial disclosures.

companies in an investor portfolio, this approach would elicit information that is of significance for assessing portfolios as a whole, whether they include apparel companies where issues related to value chain workers will most consistently be among their material social risks, extractive companies, where community-related risks will rise to the top, or tech companies, for which risks related to end-users will need to be in focus.

34. With this foundation, the ISSB's longer-term work can then build further depth in specific areas, whether through specific topical standards that center on one or another stakeholder group or issue, or through further elaboration of SASB industry-based standards. Moreover, with a common foundation in place, other jurisdictional standard-setters can elect to build out standards for specific topics or industries.
35. In taking this more straightforward and foundation-laying approach, the ISSB can leverage some powerful existing resources, which would ensure that this project is efficient and manageable. First, it has the international standards on human rights due diligence – now over 12 years in existence and with extensive understanding and writing about their implementation and relevance to effective risk management. This provides a rich resource for the potential content of an ISSB social standard with regard to governance, strategy, risk management and general approaches to metrics and targets.
36. Second, the ISSB has the CDSB Framework for Reporting Environmental and Social Information. This conceptual framework is rightly referenced in the Rfl as a relevant resource for both the human capital and human rights projects. In the context of the human rights project, the Rfl mistakenly states that it “centres on the human rights of groups of people in an organisation's value chain”, when it in fact refers explicitly and repeatedly to all four stakeholder groups. It provides precisely the kind of understanding of how to think about and approach social-related risks and opportunities in a cross-cutting manner that would be the natural foundation for an ISSB social standard.<sup>15</sup>
37. The Rfl rightly points to other relevant resources, including the Global Reporting Initiative, whose Universal Standards offer valuable parallels given the specific elements they highlight with regard to social/'people'-related issues, and the fact that they are underpinned by the international standards on human rights due diligence. The UN Guiding Principles Reporting Framework provides a similarly relevant resource, given the cross-cutting approach that it adopts and insights into the types of information that are insightful for the users of reporting. Moreover, when it comes to including some generally material workforce-related metrics under the 'metrics and targets' pillar of a cross-cutting standard, the ISSB can look to certain existing

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<sup>15</sup> See, in particular, Principles 1 and 3 and Requirements 1 to 4: <https://www.cdsb.net/what-we-do/reporting-frameworks/environmental-information-natural-capital>

SASB standards as well as research projects it has underway, which might help distinguish some of the metrics that could reasonably be prioritized within the scope and resource limits of this project.<sup>16</sup>

38. In addition to these existing resources, which will substantially ease the task of developing a cross-cutting social standard, it has been announced that a Taskforce on Inequality and Social-related Financial Disclosures (under its provisional name) will be established in the first half of 2024. This Taskforce is being set up with diverse and inclusive participation and governance and a mandate to develop ideas and consensus regarding inequality and social-related financial disclosures.<sup>17</sup> While its work will doubtless be more detailed and wide-ranging than anything the ISSB envisages at this time, it will be an additional and powerful resource for research, analysis and consultation that can support the ISSB's internal resources in working towards a cross-cutting social standard, without prejudice to the ISSB's own due process.<sup>18</sup>

39. In sum, a cross-cutting social standard would be broader but substantially less granular than either of the two social-related projects proposed by the ISSB. In taking an approach similar to the ISSB's Climate standard S2, it could leverage the rich resources of both the international standards on human rights due diligence and the CDSB Framework on Reporting Environmental and Social Information. SASB's existing standards and research projects could help define a limited number of metrics on generally material matters regarding the workforce, for inclusion under the 'metrics and targets' pillar of such a standard. As such, the resource demands should be no greater than either one or other of the currently proposed projects on 'human capital' and 'human rights' and may well be notably less. Moreover, the timely creation of a Taskforce on Inequality and Social-related financial Disclosures offers a knowledge partner and additional source of research on which the ISSB could draw in its work.

## Conclusion

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<sup>16</sup> The RfI observes that, "human capital is one of the most prevalent areas of disclosure in the SASB Standards, with relevant disclosure topics and associated metrics in all 11 sectors and most of the 77 industry-based SASB Standards. The ISSB could also use the research and materials of the SASB's research project on human capital and its standard-setting project on DEI." (p.25, para A25)

<sup>17</sup> For more on the plans and vision for the Taskforce, see:

[https://www.linkedin.com/feed/update/urn:li:activity:7102273687029972992/?utm\\_source=share&utm\\_medium=member\\_desktop](https://www.linkedin.com/feed/update/urn:li:activity:7102273687029972992/?utm_source=share&utm_medium=member_desktop)

<sup>18</sup> This would be in line with the ISSB's approach to the Taskforce on Climate-Related Financial Disclosures, whose outputs and monitoring role have now been absorbed into the ISSB; as well as the ISSB's stated intention to consider the work of the Taskforce on Nature-Related Financial Disclosures in its future agenda on nature/biodiversity-related matters: (<https://www.ifrs.org/news-and-events/news/2022/12/issb-describes-the-concept-of-sustainability>)



40. The ISSB has a one-off opportunity, as it takes its first steps into social-related standards, to lay coherent, foundational building blocks for this field of sustainability-related financial disclosures, ensuring interoperability with existing jurisdictional standards and enabling interoperability with those that may develop in the future. It would provide the information that providers of capital need in order to understand whether companies across their portfolios are equipped through their core governance, strategy and risk management systems to get ahead of social-related risks and maximize related opportunities. Given the extent of the established assets and models on which it can build, and other resources it can leverage in this work, this project should be no more – and likely less – resource-intensive than either of those social-related projects proposed in the RfI. We urge the ISSB to adopt this approach in this initial phase of its work on social-related financial disclosures.

## Annex A

### Examples of the mainstreaming of human rights due diligence expectations in government policy and guidance, legislation and regulation, and judicial and administrative processes

#### Government policy and guidance frameworks regarding human rights due diligence

- **China:** Due Diligence Guidelines for Responsible Mineral Supply Chains. Use the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance on Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas as their basis.<sup>19</sup>
- **Japan:** Guidelines on Respecting Human Rights in Responsible Supply Chains.<sup>20</sup> Sets out the government's expectation for entities to promote respect for international standards on human rights.
- **26 states** have developed National Action Plans on Business and Human Rights, which include actions to support, incentivize or require the implementation and/or disclosure of human rights due diligence by business. These states include Belgium, Chile, Czech Republic, Colombia, Germany, Kenya, Lithuania, Pakistan, Poland, Thailand, Uganda, and the UK. A further **21 states** are developing such plans or have committed to do so, including Argentina, Azerbaijan, Greece, Guatemala, India, Jordan, Liberia, Mexico, Morocco, Mozambique and Portugal.<sup>21</sup>

#### Human rights due diligence in import controls

- **EU:** Deforestation-free supply chains.<sup>22</sup> Due diligence is required to prove that products are deforestation-free and comply with applicable laws, including those on human rights protected under international law in the country of origin.
- **USA:** Uyghur Forced Labour Prevention Act.<sup>23</sup> Companies must exercise due diligence and closely examine their entire supply chain.

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<sup>19</sup> <https://www.securityhumanrightshub.org/node/434#>

<sup>20</sup> Provisional English translation available at: [https://www.meti.go.jp/english/press/2022/pdf/0913\\_001a.pdf](https://www.meti.go.jp/english/press/2022/pdf/0913_001a.pdf)

<sup>21</sup> For a full list of states, see: <https://www.ohchr.org/en/special-procedures/wg-business/national-action-plans-business-and-human-rights>

<sup>22</sup> Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32023R1115&qid=1693211975993>

<sup>23</sup> Available at: <https://www.govinfo.gov/content/pkg/PLAW-117publ78/pdf/PLAW-117publ78.pdf>

- The United States-Mexico-Canada Agreement<sup>24</sup> requires each party to prohibit the importation of goods into its territory from other sources produced in whole or in part by forced or compulsory labor, including forced or compulsory child labor.
  - **USA:** Tariff Act Section 307.25 Upon receipt of a report that any class of merchandise that is being, or is likely to be, imported into the United States is being produced by forced labor, the Customs and Border Protection will issue an order to withhold release (WRO). The importer has three months to demonstrate “every reasonable effort” has been made to determine both the source and type of labor used to produce the merchandise and its components.
  - **MEXICO:** Forced Labor Regulation.<sup>26</sup> It implements the obligation included in the USMCA and prohibits the importation of goods produced in whole or in part by forced or compulsory labor, including forced or compulsory child labor.
  - **CANADA:** Bill S-211(not in force).<sup>27</sup> amends the Customs Tariffs to expand the prohibition on the importation of goods mined, manufactured or produced, in whole or in part by forced labor, to also include child labor.
- **EU:** Ban on Forced Labour Goods. (Proposal)<sup>28</sup> The exercise of due diligence concerning forced labor is a relevant factor to be considered by supervisory authorities during investigations.

### Comprehensive human rights due diligence legislation<sup>29</sup>

- **France:** ‘Devoir de Vigilance’ law.<sup>30</sup> Companies must exercise due vigilance and publish a vigilance plan.

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<sup>24</sup> See Article 23.6 of the Labor chapter available at:

<https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/23-Labor.pdf>

<sup>25</sup> Available at: <https://www.govinfo.gov/content/pkg/COMPS-8183/pdf/COMPS-8183.pdf>

<sup>26</sup> Available in Spanish at:

[https://www.dof.gob.mx/nota\\_detalle.php?codigo=5679955&fecha=17/02/2023#gsc.tab=0](https://www.dof.gob.mx/nota_detalle.php?codigo=5679955&fecha=17/02/2023#gsc.tab=0)

<sup>27</sup> Information available at: <https://www.publicsafety.gc.ca/cnt/cntrng-crm/frcd-lbr-cndn-sply-chns/index-en.aspx>

<sup>28</sup> Proposal by the European Commission available at: [https://single-market-economy.ec.europa.eu/publications/european-critical-raw-materials-act\\_en](https://single-market-economy.ec.europa.eu/publications/european-critical-raw-materials-act_en)

<sup>29</sup> In many cases, the due diligence requirements encompass both human rights and environmental due diligence – termed ‘sustainability due diligence’ in the EU draft directive.

<sup>30</sup> LOI n° 2017-399 du 27 mars 2017 relative au devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre (1), available at: <https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000034290626/>

- **Germany:** Act on Corporate Due Diligence Obligations in Supply Chains.<sup>31</sup> Requires companies to conduct due diligence in their supply chains.
- **Norway:** Transparency Act.<sup>32</sup> Requires companies to conduct due diligence in line with OECD guidelines.
- **Netherlands:** Responsible and Sustainable International Business Conduct (proposal)<sup>33</sup> Will require companies to conduct human rights and environmental due diligence
- **EU:** Corporate Sustainability Due Diligence Directive (proposal).<sup>34</sup> This proposed legislation, currently under negotiation, will require all 27 EU member states to adopt legislation requiring companies to conduct sustainability due diligence.

### Commodity-specific legislation addressing human rights due diligence<sup>35</sup>

- **EU:** Conflict Minerals Regulation.<sup>36</sup> Requires union importers to conduct due diligence in line with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.
- **EU:** Batteries Regulation.<sup>37</sup> It sets due diligence rules for operators to verify the source of raw materials.
- **EU:** Critical Raw Materials Act (Proposal).<sup>38</sup> Companies must provide evidence of sustainability. One way to do so is by demonstrating compliance with sustainability due diligence legislation on international standards, including the UNGPs.

### Reporting requirements and guidance regarding human rights due diligence

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<sup>31</sup> Official translation in English available at: [https://www.csr-in-deutschland.de/SharedDocs/Downloads/EN/act-corporate-due-diligence-obligations-supply-chains.pdf;jsessionid=7B9EDDEDDFE63AC855772F25B8D6E45F.delivery1-master?\\_blob=publicationFile](https://www.csr-in-deutschland.de/SharedDocs/Downloads/EN/act-corporate-due-diligence-obligations-supply-chains.pdf;jsessionid=7B9EDDEDDFE63AC855772F25B8D6E45F.delivery1-master?_blob=publicationFile)

<sup>32</sup> An unofficial translation of the Norwegian version of the Act provided for information purposes only is available at: <https://lovdata.no/dokument/NLE/lov/2021-06-18-99>

<sup>33</sup> Available at:

[https://www.eerstekamer.nl/behandeling/20221102/voorstel\\_van\\_wet\\_zoals\\_gewijzigd/document3/f=/vlxokdmtrnyr.pdf](https://www.eerstekamer.nl/behandeling/20221102/voorstel_van_wet_zoals_gewijzigd/document3/f=/vlxokdmtrnyr.pdf)

<sup>34</sup> The Directive is still being negotiated. The proposal from the European Parliament is available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022PC0071>

<sup>35</sup> In some cases encompassing both human rights and environmental due diligence

<sup>36</sup> Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R0821>

<sup>37</sup> Available at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L\\_2023.191.01.0001.01.ENG&toc=OJ%3AL%3A2023%3A191%3ATO](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_2023.191.01.0001.01.ENG&toc=OJ%3AL%3A2023%3A191%3ATO)

<sup>38</sup> Proposal from the European Commission available at:

[https://www.europarl.europa.eu/RegData/docs\\_autres\\_institutions/commission\\_europeenne/com/2023/0160/COM\\_COM\(2023\)0160\\_EN.pdf](https://www.europarl.europa.eu/RegData/docs_autres_institutions/commission_europeenne/com/2023/0160/COM_COM(2023)0160_EN.pdf)

- The **European Sustainability Reporting Standards** require company disclosures regarding the conduct and Board oversight of human rights due diligence, in line with the international standards.
- **UK:** Modern Slavery Act.<sup>39</sup> Companies must prepare a statement of the steps the organisation has taken to ensure that slavery and human trafficking is not taking place.
- **Australia:** Modern Slavery Act.<sup>40</sup> Companies and other entities are required to report on how they are preventing and addressing modern slavery risks in their operations and supply chains.
- **Switzerland:** Due diligence and transparency obligations.<sup>41</sup> Requires companies to comply with due diligence and reporting obligations when importing or processing conflict minerals or offering products or services with risks of child labor.
- **US:** Section 1502 of Dodd-Frank Act.<sup>42</sup> Companies must submit a report describing the measures taken to exercise due diligence on their 'conflict minerals' source and chain of custody.
- The National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, issued by the Government of India, include the nine principles, of which the fifth states that 'Businesses should respect and promote human rights'. **The Securities and Exchange Board of India** has integrated these within the Business Responsibility and Sustainability Report required of the top 1000 listed companies by market capitalization, which include disclosure requirements regarding 'Details of the scope and coverage of any Human rights due-diligence conducted' and a number of related metrics.<sup>43</sup>
- Disclosure requirements under the **Global Reporting Initiative's** GRI-3 standard on Material Topics are similarly founded on human rights due diligence expectations as set out in the international standards.
- The **CDSB Framework** for reporting environmental and social information – a founding resource and guidance document of the ISSB – repeatedly underlines

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<sup>39</sup> Available at: <https://www.legislation.gov.uk/ukpga/2015/30/contents/enacted>

<sup>40</sup> Available at: <https://www.legislation.gov.au/Details/C2018A00153>

<sup>41</sup> Articles 964j et seq. of the **Swiss Code of Obligations** and the **Due Diligence and Transparency Ordinance** (Ordinance).

<sup>42</sup> Available at: <https://www.congress.gov/bill/111th-congress/house-bill/4173/text>

<sup>43</sup> See [https://www.mca.gov.in/Ministry/latestnews/National\\_Voluntary\\_Guidelines\\_2011\\_12jul2011.pdf](https://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf) and [https://www.sebi.gov.in/sebi\\_data/commndocs/may-2021/Business%20responsibility%20and%20sustainability%20reporting%20by%20listed%20entitiesAnnexure1\\_p.PDF](https://www.sebi.gov.in/sebi_data/commndocs/may-2021/Business%20responsibility%20and%20sustainability%20reporting%20by%20listed%20entitiesAnnexure1_p.PDF)

the significance of human rights due diligence, and it increasing regulation, with regard to the identification and reporting of material risks and opportunities.<sup>44</sup>

- The **Johannesburg Stock Exchange Sustainability Disclosure Guidance** contains a number of disclosures explicitly related to human rights due diligence processes with regard to impacts on workers and communities.<sup>45</sup>
- **Sixteen stock exchanges** now reference the UN Guiding Principles on Business and Human Rights in their guidance to issuers on ESG disclosures. These include exchanges in Turkey, Chile, Colombia, Malaysia, Peru, France, the UK and Bangladesh.<sup>46</sup>

### Judicial/ Administrative developments related to human rights due diligence

- *Milieudefensie v. Royal Dutch Shell*.<sup>47</sup> The Court ordered Shell to reduce CO2 emissions relying on the UNGPS and the existence of an unwritten standard of care.
- Administrative complaint against Volkswagen, BMW, and Mercedes-Benz under the German Supply Chain Act for alleged human rights violations in their supply chains in the Xinjiang Uygur Autonomous Region.<sup>48</sup>
- Administrative complaint against Volkswagen, BMW, and Mercedes-Benz under the German Supply Chain Act for alleged human rights violations in their supply chains in the Xinjiang Uygur Autonomous Region.<sup>49</sup>
- Six nongovernmental organizations sued Total over an oil project in Uganda and Tanzania<sup>50</sup>, alleging a failure to adequately assess the project's threats to human rights and the environment based on France's corporate duty of vigilance law.

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<sup>44</sup> <https://www.cdsb.net/what-we-do/reporting-frameworks/environmental-information-natural-capital>. See Principle 1 and Requirements 3 and 10 in particular.

<sup>45</sup> These include, for example, disclosures on the 'Total number and percentage of operations that have been subject to a human rights due diligence process or impact assessments, by country' and 'An explanation of the due diligence assessment performed on suppliers for which the right to freedom of association and collective bargaining is at risk including measures taken by the organisation to address these risks'. See:

<https://www.jse.co.za/sites/default/files/media/documents/JSE%20Sustainability%20Disclosure%20Guidance%20June%202022.pdf>

<sup>46</sup> <https://sseinitiative.org/publication/policy-brief-stock-exchange-guidance-on-human-rights-disclosure/>

<sup>47</sup> Court verdict, May 2021 available at: <https://www.foei.org/wp-content/uploads/2021/08/Verdict-climate-case-milieudefensie-shell-26-may-2021.pdf>

<sup>48</sup> Information available at: <https://www.ecchr.eu/en/press-release/erster-beschwerdefall-nach-deutschem-lieferkettengesetz-eingereicht/>

<sup>49</sup> Information available at: <https://www.ecchr.eu/en/press-release/deutscher-wirtschaftsmotor-brummt-dank-zwangsarbeit-beschwerde-gegen-vw-bmw-und-mercedes-benz-eingereicht/>

<sup>50</sup> Information available at: <https://climatecasechart.com/non-us-case/friends-of-the-earth-et-al-v-total/>

- Oxfam France and other NGOs sued BNP Paribas,<sup>51</sup> claiming that the financial institution violated France's corporate duty of vigilance law.
- Since its adoption, the U.S. Customs and Border Protection (CBP) has denied the entrance of 1,733 shipments subjected to UFLPA.<sup>52</sup> So far CPB has issued 52 Withhold Release Orders. Between October 1, 2022, to June 30, 2023, 3,455 shipments were stopped for forced labor enforcement actions or reviews.<sup>53</sup>

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<sup>51</sup> Information available at: <https://climatecasechart.com/non-us-case/notre-affaire-a-tous-les-amis-de-la-terre-and-oxfam-france-v-bnp-paribas/>

<sup>52</sup> Information available at: <https://www.cbp.gov/newsroom/stats/trade/uyghur-forced-labor-prevention-act-statistics>

<sup>53</sup> Information available at: <https://www.cbp.gov/trade/forced-labor>

## Annex B

### Examples of expectations from providers of capital regarding the conduct of human rights due diligence

#### Examples of joint action by/expectations from investors and lenders

- In 2020, a group of 105 international investors representing US\$5 trillion in assets under management joined forces to **call on governments to put in place regulatory measures** requiring companies to conduct ongoing risk management regarding risks to people associated with their business activities.<sup>54</sup>
- Under the **Advance** initiative of **Principles for Responsible Investment (PRI)**, 220 investors with over US\$30 trillion in AUM, are working together to take action on human rights and social issues. The group is using their collective influence with 38 companies to improve practices regarding three expectations, including ‘full implementation of the UNGPs’ with their central expectation of human rights due diligence.<sup>55</sup>
- The **Workforce Disclosure Initiative**, backed by 60 investors with US\$10 trillion in assets under management, surveys companies on a range of questions, of which one of the ‘foundational’ questions is whether the company conducts ‘regular human rights due diligence to identify, prevent, mitigate and account for human rights risks and adverse impacts’, if so what that is comprised of, and if not, what plans it has to do so in the future.<sup>56</sup>
- **Investor coalitions are engaging semiconductor companies** on the need for human rights due diligence with regard to Russian weapon systems.<sup>57</sup>
- The latest update of the **Equator Principles** (‘EP4’) adopted by banks expects bank clients receiving financing for projects with significant (and in some cases limited) adverse social impacts to conduct human rights due diligence in line with the UN Guiding Principles on Business and Human Rights (UNGPs) and to document that process. (EP4, Principle 2).<sup>58</sup>
- **PRI’s Technical Guide on human rights due diligence** for private market investors contains an example “checklist to assess investments’ alignment with the UNGPs”, which in turn includes an

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<sup>54</sup> See Investor Alliance for Human Rights here: <https://investorsforhumanrights.org/news/investor-case-for-mhrdd>

<sup>55</sup> The other two expectations are: (2) Alignment of their political engagement with their responsibility to respect human rights and (3) Deepening of progress on the most severe human rights issues in their operations and across their value chains. See further: <https://www.unpri.org/investment-tools/stewardship/advance>

<sup>56</sup> See Workforce Disclosure Initiative: <https://shareaction.org/workforce-disclosure-initiative/disclose-as-a-company>

<sup>57</sup> [https://www.responsible-investor.com/investors-step-up-engagement-with-semiconductor-firms-over-russian-weapon-systems/?utm\\_source=newsletter-daily&utm\\_medium=email&utm\\_campaign=ri-daily-subscriber&utm\\_content=30-08-2023](https://www.responsible-investor.com/investors-step-up-engagement-with-semiconductor-firms-over-russian-weapon-systems/?utm_source=newsletter-daily&utm_medium=email&utm_campaign=ri-daily-subscriber&utm_content=30-08-2023)

<sup>58</sup> See Equator Principles, *Guidance Note on implementation of human rights assessments under the Equator Principles*. See: [https://equator-principles.com/app/uploads/Human\\_Rights\\_Assessment\\_Sept2020.pdf](https://equator-principles.com/app/uploads/Human_Rights_Assessment_Sept2020.pdf)



assessment of whether “the investment conduct[s] human rights due diligence, including through its value chain, in line with the UNGPs”.<sup>59</sup>

- A substantial and growing array of investors use one or more of the benchmarks produced by the **World Benchmarking Alliance**, all of which incorporate WBA’s ‘Social Transformation’ indicators. These indicators include significant content regarding the conduct of human rights due diligence.<sup>60</sup>

#### Examples of individual action by/expectations from investors and lenders:

- **Abris** describes how it incorporates human rights into the investment cycle, including through a “push for the implementation of human rights-related practices within our portfolio”. Post acquisitions, Abris assesses management practices and tools, prepares an action plan and develops KPIs.<sup>61</sup>
- **NBIM’s** detailed *Human Rights Expectations of Companies*, primarily directed at investee company boards, provides detailed explanation of its expectation that “[I]n line with the Guiding Principles, we [NBIM] expect companies to conduct human rights due diligence and to identify and address their salient human rights issues”.<sup>62</sup>
- Implementation of **Mizuho’s** *Environmental and Social Management Policy for Financing and Investment Activity* includes assessment of “the degree to which the client has taken steps to avoid or mitigate social risk and other due diligence” at the screening stage and during the transaction term.<sup>63</sup>
- **BlackRock** includes the following as helpful in developing understanding of how its investees manage human rights-related risks and impacts inherent in their businesses: “How a company **identifies, mitigates, and prevents** any potential human rights impacts and determines the appropriate due diligence processes to minimize risk across their value chain (e.g., human rights risk assessments, supply chain tracing, recruitment procedures, and auditing and grievance mechanisms).”<sup>64</sup>
- When engaging with investees on modern slavery in conflict contexts, **Schroders** asks investees to introduce “robust due diligence processes and effective remedy.” In conflict areas they ask “what enhanced due diligence processes are you undertaking given this heightened risk [of modern slavery]?”<sup>65</sup>

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<sup>59</sup> See Figure 5 (p.14) here: <https://www.unpri.org/download?ac=18682>. PRI has over 5,000 members with over \$121 trillion of AUM

<sup>60</sup> <https://www.worldbenchmarkingalliance.org/social-transformation-benchmark/>

<sup>61</sup> See further here: <https://www.unpri.org/human-rights/abris-incorporating-human-rights-in-the-investment-lifecycle/8280.article>

<sup>62</sup> See further here: <https://www.nbim.no/contentassets/0ff34e35ba1a44c3b6c2039466ccbec7/human-rights.pdf>

<sup>63</sup> See further: <https://www.mizuhogroup.com/sustainability/business-activities/investment>

<sup>64</sup> See: <https://www.blackrock.com/corporate/literature/publication/blk-commentary-engagement-on-human-rights.pdf>

<sup>65</sup> See: <https://publications.schroders.com/view/704808792/7/>

- **BMO Global Asset Management** advocates “companies not already conducting human rights due diligence will need to raise their awareness through education to understand how best to detect and manage risks and provide remediation when a violation occurs. Becoming familiar with the United Nations Guiding Principles for Business and Human Rights (UNGPs) framework is a basic starting point.”<sup>66</sup>
- **First Sentier Investors**, in discussion of implications of armed conflicts for investors, notes “Proactive human rights due diligence by companies prior to an armed conflict breaking out is our preferred approach. However, for companies that find themselves potentially causing, contributing or directly linked to human rights abuses as the result of an armed conflict, heightened human rights due diligence provides a framework for navigating the situation, in addition to ensuring the company complies with international humanitarian law.”<sup>67</sup>
- **Rabobank** expects clients to undertake HRDD pursuant to the UNGPs<sup>68</sup>. **ING** takes a “risk based approach” to assessing certain clients’ management systems, evaluating client attributes such as “[h]aving a due diligence process in place which shows an understanding of how to identify severe potential risks in its supply chain and appropriate measures to mitigate these based on the severity and likelihoods of these impacts.”<sup>69</sup>

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<sup>66</sup> See: <https://www.bmogam.com/ca-en/advisors/insights/new-laws-approach-human-rights-due-diligence-practices/>

<sup>67</sup> See: <https://www.firstsentierinvestors.com.au/au/en/adviser/responsible-investing/our-focus-areas/modern-slavery.html>

<sup>68</sup> Note per Rabobank “In practice, we may engage with clients and business partners that do not yet fully meet all our expectations if they have an acceptable timebound plan to do so.” See:

[https://www.banktrack.org/download/sustainability\\_policy\\_framework\\_3/220221\\_sustainabilitypolicyframeworksept2021.pdf](https://www.banktrack.org/download/sustainability_policy_framework_3/220221_sustainabilitypolicyframeworksept2021.pdf)

<sup>69</sup> See further: <https://www.ing.com › MediaEditPage › ING-s-...>