Task Force on Inequality-related Financial Disclosures

Frequently Asked Questions (TIFD FAQ)

TIFD FAQ is an initiative of the TIFD Interim Secretariat. It was first released in February 2021 and revised in July 2022.

We invite your feedback. This FAQ is a work in progress that will be finalized with our collaboration partners. To provide comments or to inquire about how to get involved, visit www.thetifd.org and complete the form on the Contact Us page.

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The TIFD Vision

What is the vision of TIFD?

Inspired by the Task Force on Climate-related Financial Disclosures (TCFD), TIFD is conceived as an explicit systemic risk management framework that can reduce inequality created by the private sector. A collaboration among investors, civil society, businesses, financial regulators, policy makers, and academics, TIFD will provide guidance, thresholds, targets, and metrics for companies and investors to measure and manage their impacts on inequality, as well as inequality's impacts on company and investor performance.[1] Civil society organizations, regulators, and investors, can use TIFD to evaluate the private sector's performance and hold corporations to account. In this way, civil society, regulators, and investors will be the implicit enforcers of TIFD.

With an eye toward alignment with the Sustainable Development Goals (SDGs), TIFD will synthesize work on inequality from civil society and academic thought leaders with corporate and investor disclosure and risk management frameworks. It will introduce features not currently found together in any one framework: 1) a focus on investment structures and practices that contribute to inequality; 2) targets that companies and investors can work toward to alleviate inequality, metrics to gauge their progress; and thresholds to ensure that the metrics stay within planetary boundaries and respect human rights; and 3) an explicit role for representatives of the most vulnerable individuals and communities as co-creators.

Why now for TIFD?

There is a growing awareness among investors, civil society, businesses, financial regulators, policy makers, and academics that inequality poses an existential threat to the economy and society. Inequality is a systematic problem, and there is widespread acknowledgment that it needs to be addressed in a systematic manner. The rapid increase in inequality in the Global North and sustained high inequality across much of the Global South emphasizes the need for an immediate response.

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[1] These risks are referred to, respectively, as "inside-out" and "outside-in;" see: Bill Baue and Ralph Thurm, "Sustainable Finance Blueprint: Systemic Transformation to a Regenerative & Distributive Economy," *r3.0*, June 2020, https://www.r3-0.org/wp-content/uploads/2020/06/BP6-Sustainable-Finace-Draft-For-Public-Comment-June-2020.pdf

Incentives to Participate

What is the incentive for investors to participate in TIFD?

Extreme inequality is a systemic risk that hurts the economy, and therefore the markets. Various studies support this point, for instance, highlighting the risks of "secular stagnation" and financial instability.[2] Other studies demonstrate that companies that treat their workers better perform better in the long run.[3] While some types of investors may seek quick profits, their ultimate clients are often individuals, family offices, or institutions with longer time horizons and broader goals. TIFD is well-positioned to engage these ultimate investors at the top of the "capital markets value chain" – the asset owners and allocators – in assessing their long-term investment goals and evaluating how inequality impacts them.

The most powerful class of investors – large institutional asset owners and asset managers, who collectively own over 40 percent of global markets[4] – have a particular interest in ensuring that investees (asset managers and companies) address inequality. These behemoth investors administer so much money that they are forced to invest throughout the global economy (in every asset class, industry, and geography) – a condition that has earned them the moniker, "universal owners."[5] With such wide exposure, these investors cannot diversify away certain risks that are pervasive across markets, as they do with idiosyncratic risk within their portfolios. These pervasive risks are known as "systematic risks," signifying that most of these investor returns depend on the performance of the entire economy and market, not the performance of individual companies.[6] As such, inequality's harmful effects tend to cancel out any of its financial benefits from, for example, a company's choice to have lower labor costs and withhold benefits like paid sick leave.

[2] Atif Mian, Ludwig Straub, and Amir Sufi, "The Saving Glut of the Rich," *National Bureau of Economic Research*, February 2021, https://doi.org/10.3386/w26941; Josh Bivens, "Inequality is slowing U.S. economic growth: Faster wage growth for low- and middle-wage workers is the solution," *Economic Policy Institute,* December 2017, https://www.epi.org/publication/secular-stagnation/.
Pascal Paul, "Historical Patterns of Inequality and Productivity around Financial Crises," Federal Reserve Bank of San Francisco Working Paper 2017-23, March 2017. https://doi.org/10.24148/wp2017-23

[3] Andrew Edgecliffe-Johnson, "A crisis is an ideal time to raise pay," *Financial Times,* July 12, 2020, https://www.ft.com/content/a8385de5-e7cb-4fef-9e97-ac5fdc74015b.

[4] Adriana De La Cruz, Alejandra Medina, and Yung Tang, "Owners of the World's Listed Companies," OECD Capital Market Series, 2019, www.oecd.org/corporate/Owners-of-the-Worlds-Listed-Companies.htm.

[5] The term, "Universal Owner" was originally coined by Nell Minow and Bob Monks. The concept has since been expanded upon, for instance, in the following source: James Hawley and Andrew Williams, "The Emergence of Universal Owners: Some Implications of Institutional Equity Ownership," *Challenge,* 43, no.4 (2000): 43-61. http://www.jstor.org/stable/40722019

[6] Gary P. Brinson, L. Randolph Hood, and Gilbert L. Beebower, "Determinants of Portfolio Performance," *Financial Analysts Journal,* 42, no.4 (1986): 39-44. http://www.jstor.org/stable/4478947.

When systemic inequality manifests, thereby contributing to systematic risks in investors' portfolios, these risks – present across the market –become the shared burden of all. A strong business case is therefore emerging for why investors benefit from reducing inequality.[7] It is rational for these investors to demand that their investees take steps to reduce their contributions to inequality, even if that means the profits of individual companies, or of certain fund managers within the portfolio are reduced.

Given inequality's negative impacts on markets and portfolios, when an asset manager contributes to inequality, or a universal owner like BlackRock is slow to recognize its self-interest in reducing inequality, pension and sovereign wealth trustees have an interest as fiduciaries for workers and citizens in holding them accountable. Universal owners can influence the behavior of asset managers and companies through engagement, asset allocation, investment structuring, negotiating terms, shareholder resolutions, and votes for board directors. With TIFD in place, asset owners and allocators will be able to integrate the project's learnings and tools into their goals, incentive structures, and KPIs for asset managers and companies.

These investors, along with business customers, communities, and workers have an important role to play. If they voice their concerns about inequality - whether for moral or economic reasons - and vote with their dollars or feet, then asset allocators, asset managers, and companies will be incentivized to also address this concern. This dialectic underpins the concept of "dynamic materiality,"[8] where sustainability-related financial risks change according to evolving norms and associated regulatory developments. In this way, TIFD will not only help companies and investors understand what they need to measure, manage, and disclose; it will also help them to be proactive on issues to which they have heretofore generally been reactive, such as racial or gender justice.

There are strong indications that some asset managers, like asset owners, may already understand the stakes of inequality, as the post-COVID situation has already begun to compel wide-ranging calls for reform. For instance, influential investors, such as Ray Dalio, who leads the world's largest hedge fund, Bridgewater, have expressed such concern about inequality.

Will TIFD's scrutiny of investors' own investment structures and compensation deter these actors from participating?

[7] Benedict Clements, Ruud Mooij, Sanjeev Gupta, and Michael Keen, "Chapter 2. The IMF and Income Distribution," in *Inequality and Fiscal Policy* (International Monetary Fund, 2015), https://doi.org/10.5089/9781513567754.071.

[8] David Freiberg, Jean Rogers, and George Serafeim, "How ESG Issues Become Financially Material to Corporations and Their Investors," (Harvard Business School Working Paper, No. 20-056, November 2020), https://ssrn.com/abstract=3482546.

As a framework to address inequality, TIFD must also address the ways in which investors disproportionately benefit financially in relation to other stakeholders who take risk and create value, such as workers. Narrowing compensation ratios across classes of stakeholders is not a zero-sum game. As previously noted, when workers are paid better and treated better, they perform better. Similarly, in real assets, like infrastructure and real estate, projects that share economic benefits with the communities that host them earn a social license to operate and reduce risks. There are financial costs to not addressing these inequities.[9] Sharing financial benefits more equitably across stakeholders may not only moderate extreme wealth, but should also expand the pie for everyone. To achieve this, transparent and consistent compensation data is required on the actual rates of return investors earn relative to other stakeholders such as workers and communities, who take on risk and contribute to the value creation process.

The inordinate compensation of managers of certain financial intermediaries, such as some private equity and hedge funds, contributes to further wealth inequality. This phenomenon is mainly limited to certain asset managers and banks, but less so for executives and individuals who work for asset owners and allocators, the clients of asset managers.[10] High compensation among asset managers is funded partly through high fees charged to clients. As such, reduced fees by these financial intermediaries should allow for greater net returns to asset owners and allocators. This, then, constitutes another incentive for asset owners and allocators to push fund managers, banks, and other intermediaries to moderate their own executive compensation levels. Because asset managers depend on asset owners and allocators as clients, if enough clients urge their asset managers to change, a shift over time is possible. The Predistribution Initiative is working to better understand the challenges that investors face in incentivizing asset managers to reduce excessive compensation and fees.

The TIFD project will explore and raise awareness about these dynamics and work with stakeholders to ensure that all are more adequately compensated for the risk that they take and value that they create. This concept is known as "predistribution."

[9][9] The financial cost of not addressing community concerns was demonstrated in the seminal study: Rachel Davis and Daniel Franks, "Costs of Company-Community Conflict in the Extractive Sector," *Shift Project, Corporate Responsibility Initiative, Harvard Kennedy School,* (May 2014), https://shiftproject.org/resource/costs-of-company-community-conflict-in-the-extractive-sector/. Additionally, as previously mentioned, extreme inequality reduces economic growth and contributes to market instability.

[10] Asset owners and allocators are the individuals and entities who hold wealth. They can be ultra-wealthy people (high net-worth individuals, or HNWIs), families, pensioners and their pension funds, people with a 401k plan, insurance companies, sovereign wealth funds (SWFs), endowments, or other institutions. Asset allocators are entities that asset owners sometimes rely upon to manage their investments. A common type of asset allocator is a pension fund. Asset managers are entities that asset owners and asset allocators sometimes rely upon to invest on their behalf into the equities (stocks) or fixed income instruments (bonds) of companies and other entities.

What is the business incentive to participate in TIFD?

The TIFD project is underpinned by a fundamental belief that the health of the financial system depends upon the health of the natural and human systems that it is based on. There are strong economic as well as moral incentives for companies and investors to participate in TIFD. As noted previously, for institutional investors, reducing inequality reduces systematic portfolio risk, as a growing body of evidence shows. Companies and asset managers must therefore respond to investor demand by reducing their negative impacts that contribute to inequality.

There is evidence that the corporate sector has begun to grapple with its contribution to inequality.[11] For example, Jamie Dimon, CEO of J.P. Morgan, has called inequality "a huge problem" and complained about investment structures that perpetuate inequality.[12] And Unilever has committed to paying a living wage throughout its supply chain by 2030.[13] These companies are under pressure from both their investors, as well as other stakeholders, such as workers and communities, to address extreme inequities.

Businesses understand that there are human rights challenges in their business operations that they cannot solve by trying to root out the problem on their own. For decades, companies have acted collectively to improve their leverage to address problems, for example when apparel brands and unions joined together to create the Bangladesh Accord on Fire and Safety following the Rana Plaza factory building collapse in 2014. We think businesses will recognize the same value of collective action through TIFD.

Why should civil society organizations devote their scarce time and resources to TIFD?

Civil society organizations have a key role to play in shaping "dynamic materiality" by voicing their concerns about inequality and their proposals for addressing it, thereby elevating sustainability-related financial risks that asset allocators, asset managers and companies will need to respond to. Civil society not only has the most at stake, but also has the expertise, having worked on these issues for decades. Therefore, it is also essential that they be at the table in creating TIFD.

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[11] Sherrell Dorsey, Grace McFadden, and Ashley Stewart, "Statements Made by Top Tech Companies on Racial Justice, BLM, and George Floyd," [Data set]. *TP Insights,* 2021, https://docs.google.com/spreadsheets/d/1OZx-_tm3PPyx6-ZJAST1xxOJRfn7KfYDjDT6JedrTfs/edit#gid=0.

[12] Christopher Condon and Bloomberg, "JPMorgan CEO Dimon Calls Income Inequality 'Huge Problem' But Won't Say CEOs Are Paid Too Much," *Fortune*, November 11, 2019, https://fortune.com/2019/11/11/jpmorgan-ceo-dimon-income-inequality-ceo-pay/.

[13] Unilever, "Unilever commits to help build a more inclusive society," January 21, 2021, https://www.unilever.com/news/press-releases/2021/unilever-commits-to-help-build-a-more-inclusive-society.html.

Too often when regulators and the private sector come together to embrace certain sustainability frameworks, however, they poorly engage civil society representatives. This failure no doubt accounts for why the resulting frameworks do not always align with international human rights and environmental standards, as in the updating of the Equator Principles.[14] The Finance in Common Summit, which brought together 450 public development banks to "build new forms of prosperity that take care of people and the planet," while excluding grass roots groups from their deliberations faced similar criticism.[15]

In a post-COVID world, governments are poised to take action on inequality. TIFD is an opportunity to ensure that this time the essential role of civil society is embraced.

Why should government regulators and policy makers back TIFD?

Policy makers and regulators have started to recognize the multiple crises we now face – for instance, health, climate, racial justice, and widespread inequality. These issues influence a host of government priorities, from constituency concerns to market stability. As such, many are seeking to develop tools and frameworks that improve the status quo.

It is widely accepted that the private sector has a role to play in addressing social harms that it has contributed to and maintaining healthy societies that it will continue to benefit from. However, currently, there is no private sector disclosure framework that accounts for the systemic economic and financial risk that the inequality outcomes of business practices pose. We believe that the TIFD concept offers policy makers and regulators a clear plan for measuring, monitoring, and evaluating private sector impacts. Through improved disclosure, TIFD can help all stakeholders better understand what corporate and investor activities contribute to inequality, as well as the resulting risks. With this information and knowledge, these disclosures can also lead to improved legislation and regulation, as well as central bank actions.

Government leadership is important, but so is a willingness, participation, and buy-in by those who are governed, particularly where government initiatives are held back by gridlock or other challenges. As such, TIFD embraces the belief that tackling inequality requires a multi-pronged approach by many actors. Additionally, we recognize government officials may be constrained to act when corporations that do not share the same vision have such a powerful influence on policy making. TIFD seeks to collaborate with existing initiatives, such as the Center for Political Accountability, American

[14] Women's Earth & Climate Action Network, International, "With New Equator Principles, Banks Fail to Act on Climate or Indigenous Rights," November 21, 2019, https://www.wecaninternational.org/Press Releases/With-New-Equator-Principles%2C-Banks-Fail-to-Act-on-Climate-or-Indigenous-Rights.
[15] Siddharth Akali, "Global Summit of Development Banks Fails to Learn from Destructive Past," *Inter Press Service*, November 13, 2020, http://www.ipsnews.net/2020/11/global-summit-development-banks-fails-learn-destructive-past/.

Promise, Public Citizen, Preventable Surprises, the Corporate Political Responsibility Taskforce, and others working to undo corporate capture to integrate measures around lobbying and political spending into the framework.

TIFD Nuts and Bolts

How can TIFD address inequality?

As the Fight Inequality Alliance notes in its vision statement, “inequality has deep roots” and serious consequences for our democracy and society. As investors and companies are realising, inequality also has consequences for global economic and market stability.

With widespread recognition of the destabilizing effects of inequality to the global economy – not to mention the violation of human rights of a growing part of the world’s population – all stakeholders acknowledge the need to address it somehow. Government has a critical role to play. But government alone cannot reduce inequality, particularly when so much of government is captive to monied interests. Private actors – civil society, investors, and business – must be part of the solution. Now is the time for them to look more systematically at their own contributions to the problem, yet there is no private sector disclosure framework that accounts for the systemic economic and financial risk that inequality poses.

TIFD aims to fill this gap. By methodically mapping how businesses and investors contribute to inequality, we can design a disclosure framework – including thresholds, targets, and metrics – so that investors and companies have the tools they need to measure, manage, and reduce their contributions to inequality, and civil society and government regulators can hold them accountable. While we recognize that disclosure itself is not a silver bullet to solve inequality, improved disclosure is a critical lever to pull. In this way, TIFD can contribute to the reduction of gross, destabilizing economic inequality.

How does TIFD define inequality?

Inequality has many facets. A central facet is income inequality within societies; but income inequality is fed by discrimination in all its increasingly varied forms – racial and ethnic, gender, sexual orientation, and disability – especially in times of insecurity, as the COVID pandemic has shown.[16] TIFD approaches inequality holistically encompassing all of these facets, addressing both vertical inequality (i.e., economic inequality among

[16] As noted in the ILO’s 2011 follow up report on the 1998 ILO Declaration, discrimination is becoming more varied. See: “Equality at work: The continuing challenge - Global Report under the follow-up to the ILO Declaration on Fundamental Principles and Rights at Work,” *International Labour Organization,* 2011, https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_154779.pdf.

individuals or households), as well as horizontal inequality, (i.e., inequality between culturally defined groups, such as by gender, race, ethnicity, and ability) both within countries and between them.

Diversity, equity, and inclusion ("DEI") in employment policies are important to address this workplace problem, but so are impacts of other company and investor practices, such as taxing, investment structuring, and supply chain purchasing, on already marginalized and vulnerable communities. Moreover, business models such as ridesharing or food delivery platforms that rely upon contracted labor to avoid providing employee benefits (e.g. minimum wage, health and disability benefits, and right to form and participate in a union) contribute to inequality. Companies also contribute to inequality when they lobby against worker protections. All these aspects are in scope for TIFD.

What is the difference between systemic risk and systematic risk?

Like climate change, inequality is widely understood to impact society and the global economy as a whole. When the fruits of economic growth accrue disproportionately to those with the least propensity to spend those gains, global growth undershoots its potential (a concept known as secular stagnation). While some businesses and investors may be able to sustain profits in the short-term, in the longer-term, these gains are at risk of economic shocks and market downturns. Because inequality impacts the broad economy, it has been deemed a systemic risk.

In the investment industry, "systemic risk" has a particular meaning, and therefore the term "systematic risk" may better represent common concerns held by both civil society and investors about the aggregate, cumulative, and system-wide effects of inequality. According to *Investopedia*,

> "Systemic risk describes an event that can spark a major collapse in a specific industry or the broader economy. Systematic risk is the pervasive, far-reaching, perpetual market risk that reflects a variety of troubling factors. Systemic risk is often a complete, exogenous shock to the system, such as the threat that one of the major banks that collapsed during the 2008 financial crisis could then trigger a massive market implosion. Systematic risk is the overall, day-to-day, ongoing risk that can be caused by a combination of factors, including the economy, interest rates, geopolitical issues, corporate health, and other factors."[17]

Throughout this FAQ we will use both terms: "systemic risk" will refer to risks to the overall economy and "systematic risk" to risks affecting investors' portfolios that are generated by inequality's effect on the economy and markets.

[17] Joseph Nguyen, "Learn How Systemic and Systematic Risk Are Both Threats to Investors," *Investopedia,* August 28, 2020, https://www.investopedia.com/ask/answers/09/systemic-systematic-risk.asp.

What is the geographic scope of TIFD?

As inequality is a global problem, TIFD is envisioned to be global in geographic scope. TIFD's focus on the largest investors, multinationals, and their value chains means it will necessarily bring attention to the global impacts of corporate and investor conduct on inequality, and efforts to reduce it.

The inequality crisis varies across geographies, as it is differentially shaped by each region's historical antecedents. In a 2021 article in *Foreign Affairs*, for example, former president of the Inter-American Development Bank, Luis Alberto Moreno explains that the COVID crises is an inequality crisis that has been decades in the making.[18] The TIFD Project will create an international advisory board consisting of leading regional experts who can help to ensure that TIFD is regionally relevant and is informed by these experiences.

Can TIFD disrupt aspects of the financial system that are inherently premised upon inequality?

As explained in the Incentives section of this FAQ, TIFD's theory of change is premised upon the idea that investors and companies can be incentivized to reduce their negative impacts on society, the economy and markets. TIFD can provide the tools to understand what changes are needed to reduce inequality. In this way, we believe TIFD has the potential to be transformative. As inequality is reduced and asymmetrical power structures are altered, the rules of the game may change to enable transformation and truly disrupt those aspects of the financial system that typically would not function without inequality.

How would the TIFD disclosure framework utilize thresholds, targets, and metrics?

There are multiple ways in which the private sector can create or ameliorate inequality. For example, individual companies create inequality when they or their suppliers engage in wage theft. Entire industries may operate with business models that are unsustainable and can cause systems-wide harm, exacerbating inequality.[19] Finally,

[18] Luis Alberto Moreno, "Latin America's Lost Decades: The Toll of Inequality in the Age of COVID-19." *Foreign Affairs*, January/February 2021, https://www.foreignaffairs.com/articles/south-america/2020-12-08/latin-americas-lost-decades.

[19] "Business Model Red Flags: 24 Ways in Which Businesses Could be Wired to Put People at Risk," *Shift Project*, February 2021, https://shiftproject.org/resource/business-model-red-flags/red-flags-foreword/.

financial practices across the whole economy, such as excessive leverage in private equity, diminish business resilience, and frequently lead to the erosion of quality jobs.[20]

As part of the co-creation process, we will develop methods for standard setting that can bring to bear new thinking about how to deliver systems change through a disclosure framework. One approach is to define targets and metrics that will capture these various contributions to inequality with the goal to reduce, or where possible, eliminate them. Targets must be defined such that the private practice observes planetary and human rights limits, or thresholds.[21] A target and a threshold might be coterminous, for example when the target is to end gender and racial/ethnic discrimination in hiring and promotion. A metric may also be a step towards a target without achieving that target, for example in the case of a goal to reduce a pay gap by 10% over a specified time frame. Progress towards targets will need to be measured by appropriate and meaningful metrics, from which KPIs will be identified.

TIFD will also create tools for achieving reductions in inequality, and possibly something akin to TCFD's prescription for scenario analysis.[22] Concepts such as stress testing for inevitable policy response, or inequality value at risk, will be explored.[23]

Unlike climate metrics, inequality metrics are underdeveloped. What is the basis upon which TIFD will be constructed?

TCFD benefitted from years of research and resources focused on climate, particularly the Climate Disclosure Project (CDP), a platform launched in 2000 to provide a system for companies, cities, states, and regions to disclose their financially material climate impacts. TIFD is being developed via a multi-stakeholder process through which the same rigorous analysis and framework development can emerge.

Fortunately, there are a number of existing initiatives that give TIFD a big head start. Groundwork has been laid by organizations such as World Benchmarking Alliance (WBA), Sustainability Accounting Standards Board (SASB), Global Reporting Initiative (GRI), Impact Management Project (IMP), and IRIS+, as well as specific efforts focused on inequality, such as Race Forward's work on racial inequality, CREA's feminist work o human rights, the Workforce Disclosure Initiative, and the Thirty Percent Coalition's

[20] Bryce Covert, "The Demise of Toys 'R' Us Is a Warning," *The Atlantic,* July/August 2018, https://www.theatlantic.com/magazine/archive/2018/07/toys-r-us-bankruptcy-private-equity/561758/.
[21] Kate Raworth, Doughnut economics: seven ways to think like a 21st-century economist. (London: Random House, 2017).
[22] Task Force on Climate-Related Financial Disclosures, *Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities*, 2017, https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Technical-Supplement-062917.pdf.
[23] Deloitte, *The Predictive Power of Stress Tests to Tackle Climate Change,* https://www2.deloitte.com/content/dam/Deloitte/fr/Documents/sustainability-services/deloitte_climate-risk-assessment.pdf.

guidance on gender inequality. [Wikirate](), an open access platform that aggregates these data for public use and manipulation, can facilitate the analysis across reporting frameworks. In this way, TIFD can be seen as including a branch of work comparable to CDP: an Inequality Disclosure Project or "IDP".

How is TIFD different from similar initiatives working on inequality issues?

As mentioned above many initiatives are already working on ways of measuring the social impact of the private sector. TIFD will contribute and add to these initiatives as follows:

- Applying a specific inequality lens.
- Systematizing the work previously done by these other organizations.
- Validating this work and, if necessary, developing new metrics and targets with each and every key actor involved, including civil society organizations, social movements and unions, among others.
- Validating and developing this work also with companies and their investors.
- Working in both the Global North and the Global South.

How TIFD Relates to TCFD and Other Initiatives

What are the key similarities between TIFD and TCFD?

Like TCFD, TIFD is being designed as a framework to be used by companies and investors to measure and manage both systemic risk and systematic portfolio risk. TIFD also aims to build support from regulators and policy makers for reducing inequality that damages economic performance.

What are the differences between TIFD and TCFD?

There are five key differences between TIFD and TCFD.

1. *The overall goal of each initiative*. For TCFD, the goal is absolute: to keep global warming at or below 1.5 degrees relative to a pre-industrial baseline. The overall goal for TIFD, on the other hand, is relative, although there are some differences between vertical and horizontal inequality. To address vertical inequality, we will collaboratively determine, through research and deliberation, the increments of the reduction of inequality (as measured by the GINI coefficient, for example) per a certain period using certain key performance indicators (KPIs). Horizontal equality, which is manifest in the elimination of discrimination, on the other hand, is a core labor standard as defined by the International Labour Organization and an absolute

goal.[24] For both vertical and horizontal inequality, the KPIs, increments, and time periods will be determined through research and deliberation among stakeholders.

2. *TIFD is explicitly rights-based*, both in its creation and target outcomes, centering individuals and groups harmed by the market ideologies that have deepened inequality. Inequality is a manifestation of power disparities, with the powerful designing and/or (intentionally or unintentionally) benefiting from economic systems that marginalize and harm the less powerful. For TIFD to be successful, the expertise and lived experiences of rights holders and their civil society representatives must be elevated in its development.

   At the same time, representatives of the economic and political institutions that contributed to those problems cannot remain on the sidelines. Indeed, these individuals can bring a critical understanding of the legacy of existing systems, and of how adjustments to those systems can bring improvement. Nonetheless, in the deliberations to create TIFD, those who have held power will be asked to make space for rights holders to have equal voice and influence.

3. *TCFD is a framework*, where companies and investors are left to independently develop their own targets and pathways to a 1.5-degree scenario, as noted above. The TIFD project, by contrast, will create a framework, as well as metrics and targets to track company and investor progress.

4. *TCFD is exclusively concerned with the ways that companies and investors manage risks to themselves, which can be understood as "outside-in" risks.* TIFD is not only concerned with the risks that inequality poses to companies and investors; it is also concerned with the risks that the actions of companies and investors pose to the aggravation of inequality, or "inside-out" risks.[25]

5. *TCFD only focuses on companies' operational risks as opposed to activity at the investor level*. Specifically, in the TCFD framework, investment structures and practices that contribute to negative impacts are not explicitly addressed. TIFD recognizes that it is not only corporate operations that have negative impacts, but

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[24] International Labour Organization, *ILO Declaration on Fundamental Principles and Rights at Work,* June 1998, https://www.un.org/ruleoflaw/files/ILO%20declaration%20on%20fundamental%20principles%20and%20followup.pdf. This declaration identified the elimination of discrimination, defined in the Equal Renumeration Convention, 1951 (No 100) and Discrimination (Employment and Occupation) Convention, 1958 (No. 111) 111, as one of four core standards. Some scholars argue that non-discrimination is a "non-absolute" right, for example, in instances in which an employer differentiates to uphold other fundamental rights. See for example: Ceyda Ilgen, "Non-Discrimination as a Non-Absolute Right," (2020), https://www.researchgate.net/publication/344411976_NON-DISCRIMINATION_AS_A_NON-ABSOLUTE_RIGHT

[25] Bill Baue and Ralph Thurm, "Blueprint 6: Sustainable Finance Blueprint: Systemic Transformation to a Regenerative & Distributive Economy," *r3.0*, September 2020, https://www.r3-0.org/wp-content/uploads/2020/09/r3-0-Sustainable-Finance-Blueprint-Final.pdf

also often the investment structures and practices themselves (e.g., when a private equity fund overleverages a portfolio company, it can have a negative impact on quality jobs and workers).[26]

Given the substantive differences between TIFD and TCFD, is TCFD the right initiative to emulate?

While TIFD has different features from TCFD, we draw inspiration from TCFD. Like climate change, inequality is a systemic risk to society that manifests as systematic risks for investors, thus motivating them to take action to reduce their portfolio risks, with a cascading effect on investee practices. TCFD recognized this dynamic and addressed it through a framework that investors, companies, and their stakeholders could use to measure, manage, and disclose their risks from climate change. We believe that to get the private sector to take steps to reduce inequality, it is necessary to design a similar tool for investors.

What happens to TIFD if it doesn't attract high-level support like TCFD?

TCFD had the backing of the Governor of the Bank of England (Mark Carney) and a billionaire philanthropist (Michael Bloomberg). TCFD was also set up by the G20's Financial Stability Board. We are hopeful that TIFD will attract similar high-level support. However, it is not essential that TIFD has regulator/policy maker support. Investor-civil society collaborations, such as the collaboration[27] between Climate Action 100+ and the Transition Pathway Initiative have proven effective in creating positive change. TIFD can be effective as well when investors, corporations and civil society all see it as in their best interest to collaborate.

Additionally, as helpful as it will be to have powerful benefactors promoting TIFD and advocating for its uptake, if we are truly going to address inequality, we also need to lift up voices, lived experiences, and the value of those who have been historically marginalized. These people need to be at the center of our interventions. We therefore welcome powerful actors but seek a balance that would also include those who have been historically marginalized.

[26] This topic of rethinking private equity investment practices is discussed further in:
Raphaele Chappe and Delilah Rothenberg, "A more thoughtful private equity model," *top1000funds.com*, August 13, 2020, https://www.top1000funds.com/2020/08/a-more-thoughtful-private-equity-model/; Peter Dunbar and Delilah Rothenberg, "Aligning private equity investment practices and structures with ESG goals," *PRI Blogs, UN PRI,* November 9, 2020, https://www.unpri.org/pri-blogs/aligning-private-equity-investment-practices-and-structures-with-esg-goals/6718.article.

[27] Ceres, "Climate Action 100+ calls for net-zero business strategies & sets out benchmark of largest corporate emitters," September 14, 2020, https://www.ceres.org/news-center/press-releases/climate-action-100-calls-net-zero-business-strategies-sets-out-benchmark.

How can another disclosure framework hold economic actors accountable and help reduce inequality?

While “sunlight is the best disinfectant,” and “what gets measured, gets managed” are well-worn clichés, disclosure has been shown to change corporate behavior for the better in the realms of pollution, mine safety, and conflict minerals.[28] We believe that a well-constructed disclosure regime can influence corporate and investor behavior surrounding inequality by: 1) making managers themselves aware of impacts they were not previously thinking about; and 2) providing transparency for stakeholders to understand private sector impacts and therefore be better positioned to hold the private sector accountable.

TCFD is in the early stages of implementation, and as such, the results and impacts are not clear yet. With that said, TCFD proponents have acknowledged some elements of measurement and management that would make its implementation more robust.[29] In the design of TIFD, we aim to learn from the experience of TCFD and include those elements that would not just result in strong disclosure, but also in targets and timelines for accountable change in corporate and investment practices.

For instance, the treatment of inequality in current ESG (environmental, social, governance) disclosure frameworks is inadequate. While many existing frameworks focus on the more easily measurable “E” and “G” factors, investors have expressed that the “S” in ESG is not well-understood, and they have called for tools to measure and manage negative impacts.[30] Others have argued that the “S” needs to be clarified, including whether inequality is crosscutting across environmental, social, and governance factors, and if these factors even encompass all aspects of responsible investment.[31] TIFD will synthesize the latest work on inequality from civil society and academia together with existing and emerging corporate disclosure and risk management frameworks, and will augment these with a cluster of features not currently found in any one framework: the combination of a systemic perspective, a focus on

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[28] Jason Scorse, “Does Being a ‘Top 10’ Worst Polluter Affect Facility Environmental Releases? Evidence from the U.S. Toxic Release Inventory,” 2000, http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.322.8036&rep=rep1&type=pdf; Hans Bonde Christensen, et al., “The Real Effects of Mandated Information on Social Responsibility in Financial Reports: Evidence from Mine-Safety Records,” *Journal of Accounting & Economics* 64, no. 2-3 (August 3, 2017), https://ssrn.com/abstract=2680296; Enough Project, *Progress and Challenges on Conflict Minerals*, June 2018, https://enoughproject.org/special-topics/progress-and-challenges-conflict-minerals-facts-dodd-frank-1502.

[29] Task Force on Climate-Related Financial Disclosures, *2020 Status Report*, October 2020, https://www.fsb.org/wp-content/uploads/P291020-1.pdf.

[30] BNP Paribas Securities Services, *The 'S' of ESG – Part 1: A challenging factor*, November 19, 2019, https://securities.bnpparibas.com/insights/s-of-esg-part-1.html.

[31] Leo E. Strine, Jr., “Toward Fair and Sustainable Capitalism,” U of Penn, Inst for Law & Econ Research Paper no.19-39, Harvard John M. Olin Discussion Paper no.1018, (October 3, 2019), https://ssrn.com/abstract=3461924; Silvia Pavoni, “There's a letter missing in ESG,” *The Banker*, November 27, 2020, https://www.thebanker.com/World/Americas/US/There-s-a-letter-missing-in-ESG.

investment structures and practices that contribute to inequality, metrics and targets to alleviate inequality, and an explicit equal partnership with civil society representatives.

We recognize that many doubt the efficacy of voluntary disclosure frameworks to achieve sustainability goals, such as a reduction in inequality. We acknowledge that transparency is not the same as accountability, yet transparency is an essential prerequisite to accountability and to iterating stronger standards over time.

What is ESG investing and impact investing?

When discussing TIFD, the TIFD Project may at times refer to "ESG investing" and "impact investing," terms the financial community uses to refer to investing with consideration to environmental and/or social issues. According to the United Nations Principles for Responsible Investment (PRI), "Responsible investment (RI) is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns." When we refer to "ESG investing" or "ESG integration," we typically use it synonymously with "responsible investment." By "impact investing," we defer to the Global Impact Investing Network (GIIN) definition: "Investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return."

How can TIFD contribute to the SDGs?

The private sector has a significant responsibility to meet commitments of the Sustainable Development Goals (SDGs), and a company's attention to inequality and human rights is a way of demonstrating its commitment to the SDGs. With respect to SDG 10, Reducing Inequality, companies and investors have a lot of work to do. For the first time since 1998, poverty levels are rising as a result of dynamics related to COVID-19.[32]

The specific subject of inequality appears throughout the SDGs. SDG 10 is dedicated to reducing inequality and includes vertical and horizontal inequality targets. In particular, it specifies indicators on wages and social protection (10.4.1) and anti-discrimination (10.3.1). Additionally, other goals, through their targets and indicators, address inequality of access, opportunity and outcomes. Examples of relevant targets and indicators include:

> *Target 1.2* "By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions;

[32] United Nations Development Programme, *COVID-19 & Poverty: How Sustainable Development Goal One will be affected*, [Infographic], 2020, https://feature.undp.org/covid-and-poverty/?utm_source=web &utm_medium=homepage&utm_campaign=EndPoverty2020-socialmedia.

Indicator 2.1.2 "Prevalence of moderate or severe food insecurity;"
Indicator 3.8.2 "Proportion of population with large household expenditures on health as a share of total household expenditure or income;"
Indicator 5.5.2 "Proportion of women in managerial positions;"
Target 8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value."

The TIFD Project itself will align with Goal 17, specifically Targets 17.13 – 17.19, on addressing systemic issues through partnerships, policy coherence, and data, monitoring and accountability.

In addition to the SDGs, the TIFD Project also aligns with the goals, targets, and responsibilities set out in other international standards, including the UN Guiding Principles on Business and Human Rights and the Paris Agreement.

Is it possible to use the notion of tipping points and tipping cascades in the same way that it has been used to describe the climate crisis?

The topic of tipping points, as described by Ben Ehrenreich, is debated among scholars. It deserves further study, and we look forward to the input of our collaborators.

Will TIFD address the issue of tax avoidance?

Yes. Rent seeking activity including tax avoidance and tax abuse by companies and investors will be included in the framework. Tax havens – and even well-intended tax incentives – contribute to the depletion of financial resources[33] in countries, cities, and other jurisdictions that are critical to fulfill the basic economic needs and social rights of citizens. Tax Justice Network Africa, Tax Justice Network, Fact Coalition, and Center for Economic and Social Rights have done excellent work advocating for companies to report payments to governments on a country-by-country basis and the exposure of beneficial owners. The Global Reporting Initiative (GRI) has recently released a new taxation disclosure standard that will bear importantly on this effort.[34]

[33] Alex Cobham, et al., "The State of Tax Justice 2020," *Tax Justice Network,* 2020, https://www.taxjustice.net/reports/the-state-of-tax-justice-2020/

[34] Global Reporting Initiative, *Topic Standard Project for Tax: A new global standard for public reporting on tax*, 2021, https://www.globalreporting.org/standards/standards-development/topic-standard-project-for-tax/.

The TIFD Project Plan

What is the concrete plan for launching TIFD?

The plan for launching the TIFD project consists of the following steps:

Mapping stakeholders: The stakeholders relevant to TIFD are diverse, and we expect stakeholder mapping and engagement to be an iterative process. In the early stage, it will help us to identify initial collaborators and governance board members.

Two-way capacity building: Global civil society networks are well positioned to mobilize support for TIFD and make an essential contribution to its creation. Many investors are several degrees removed from actual stakeholders and their impacts on the ground and can benefit from a chance to learn more from civil society stakeholders. We will start by working with the leadership of these networks to learn about how TIFD fits with their agendas and what information they may need to enhance the engagement of their members. Projected activities include a "Call to Action" webinar, and a "Why TIFD?" animated video.

Engaging policymakers and regulators: We aim to attract the attention of one or more influential policy makers or regulators to join us. The backing of a regulator will help signal to the market that inequality is a material risk. This can be an important addition to the success of the initiative, as was the case with TCFD.

Virtual convenings/working groups: We anticipate convening small group meetings of institutions and individuals interested in collaboration. In time, we will develop workstreams to bring stakeholders together to draft a disclosure framework and outline how the framework should interact with existing investor and corporate guidance on inequality-related issues, including ESG, business and human rights (BHR), and impact investing frameworks.

Hiring an Executive Director and establishing a governance structure: Early-stage activities will entail establishing TIFD as a stand-alone initiative, with a governance structure representing diverse stakeholders, and, as fundraising progresses, hiring an Executive Director and support staff.

What methods will be used to create TIFD?

TIFD is a co-creation of civil society, businesses, investors, policy makers, regulators, and academics. The methods will be decided by the technical working groups. Below is an idea of what elements they may include:

- A mapping and analysis of corporate and investor disclosure and risk management efforts used to address inequality;
- Mapping and analysis of how companies and investors contribute to inequality;

- Identification of gaps between the first two bullet points above;
- Research towards the development of social science-based targets for inequality (an example of a similar initiative for climate can be found on the Science Based Targets website);
- Identification of disclosures needed to close gaps between existing disclosure and risk management efforts and how companies and investors contribute to inequality;
- Analysis of proposed metrics and targets for salience, materiality, systemic and systematic risk, and unintended consequences;
- Finalization of metrics and targets for disclosure;
- Production of guidance and trainings on ways for companies and investors to capture, synthesize, disclose, analyze, and use the data; and,
- Periodic (e.g., bi-annual) evaluation of TIFD to identify reporting gaps and areas for improvement.

Do you see a tradeoff between getting a strong TIFD framework and achievability? How will TIFD balance that inevitable tension?

We intend to establish a set of standards based on existing work as a starting point, and to iterate stronger standards over time. While we don't know yet what tensions we will face, the issue of tradeoffs is one that the TIFD governance board will need to tackle.

Who is the leadership behind TIFD and how is this determined?

The idea of TIFD developed through conversations between two organizations - the Predistribution Initiative and Rights CoLab. We recognized that TCFD had widespread and significant uptake by investors, but that there was no comparable framework for another systemic risk that manifested as systematic risks in investors' portfolios - inequality. As such, we wrote an article articulating our views and have commenced a process of inviting other stakeholders to join us in co-creating TIFD.[35]

The Predistribution Initiative and Rights CoLab are eager to participate as equal partners with others in constructing a multi-stakeholder governing body composed of leading specialists on these issues. We are committed to ensuring that such a governing body and other elements of TIFD's governance, including a future Executive Director and other senior leadership, reflect strong diversity and center typically marginalized voices.

How can an organization or individual get involved?

Visit thetifd.org for more information and details on how to become a partner.

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[35] Joanne Bauer, Paul Rissman, and Delilah Rothenberg, "It is time for a Taskforce on Inequality-related Financial Disclosures," *Responsible Investor,* May 5, 2020, https://www.responsible-investor.com/articles/it-is-time-for-a-taskforce-on-inequality-related-financial-disclosures.