

# The Taskforce on Inequality and Social-related Financial Disclosures

## TISFD Proposed Scope and Mandate



This document outlines recommendations on the possible scope and mandate of the TISFD's work, the approach it might take to questions related to materiality and its relation to other frameworks and standards, and its intended outputs, outcomes, and impacts. We welcome your feedback, questions, and reflections on the following seven elements:

- Thematic scope
- Materiality approach
- Alignment with international standards of conduct
- Interoperability with existing standards and frameworks
- Proposed outputs
- Intended outcomes and impacts
- Gaps and weaknesses in metrics and indicators



To share your views on any or all of the elements in this document, please use this [feedback form](https://qualtricsxms2qd6sl6z.qualtrics.com/jfe/form/SV_2lxTHPKp7y_u7OF8) or go to [https://qualtricsxms2qd6sl6z.qualtrics.com/jfe/form/SV\\_2lxTHPKp7y\\_u7OF8](https://qualtricsxms2qd6sl6z.qualtrics.com/jfe/form/SV_2lxTHPKp7y_u7OF8). The feedback form is also accessible on the TISFD site at [www.TISFD.org/feedback](http://www.TISFD.org/feedback).



Please note that the TISFD Working Group will accept feedback on a rolling basis. We will publish a document with key takeaways from the feedback process ahead of the formal launch of the Taskforce in September 2024.

# 1. Thematic Scope

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

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

The Working Group proposes that the Taskforce approach social and inequality-related issues in an integrated and coherent manner that reflects the breadth of issues concerned and the complementarities between companies' responsibility to respect human rights, efforts to reduce inequalities and enhance people's well-being, and investments in human and social capital. To enable this integrated approach, the Taskforce will need to set out conceptual foundations that clarify and articulate the relationships between impacts and dependencies on people and associated risks and opportunities. This includes clarifying the various themes, topics or dimensions that constitute people's state of being, the different stakeholders affected, and the various types of inequalities. These conceptual foundations should also reflect the deep interlinkages between social and inequality-related issues on the one hand, and efforts to address climate change and nature-related risks on the other.

A broad approach to social and inequality-related issues does not necessarily mean that the Taskforce's disclosure recommendations will address every social issue separately. Keeping in mind the broad scope of these issues, the TISFD will prioritize disclosure recommendations that are of general relevance and/or that most meaningfully allow users of information to respond to widespread or significant social and inequality-related risks, opportunities and impacts.

## 2. Materiality Approach

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

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

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

The Working Group proposes that the Taskforce develop disclosure recommendations that are interoperable with both an impact materiality perspective and a financial materiality perspective. Given that different standard-setters and regulators adopt different materiality perspectives, we suggest that the Taskforce should seek to delineate these perspectives where feasible, while recognizing that the identification of an organization’s material/significant impacts is an essential basis for identifying many financially material matters.

The Taskforce should also explore the materiality of inequality as a system-level risk. To do so, we suggest that the Taskforce evidence the relationships between organizations’ impacts, the accumulation of inequalities, and system-level financial effects for companies, investors, markets and financial stability. We suggest that the Taskforce should explore where and how impact materiality and financial materiality overlap, taking account of different time horizons, and that it consider the extent to which the metrics and indicators most relevant for each materiality perspective may also overlap.

### 3. Alignment with International Standards of Conduct

International standards of conduct that address the responsibility of business and financial institutions with regard to negative impacts on people's human rights are of central relevance to the assessment and disclosure of inequality and social-related issues. These standards are the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. They include due diligence expectations for the management of risks of adverse impacts. These standards have been endorsed by Governments and are beginning to be transposed into legislation and integrated into reporting standards in a number of jurisdictions. They have also been taken up by companies and industry groups, investors and investor groups, multi-stakeholder initiatives, civil society and labor organizations nationally and globally.

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

## 4. Interoperability with Existing Standards and Frameworks

A number of standard-setters exist in the sustainability reporting space. Notable standard-setters are:

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

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

The Working Group underscores that the Taskforce is not intended to be a standard-setter, but that it should strengthen the development of social and inequality-related financial disclosures and be available as a knowledge partner to standard-setting bodies and jurisdictions such as those mentioned above. The Working Group also proposes that the Taskforce should leverage and build upon the indicators and metrics in existing reporting standards and frameworks.

The Taskforce should conduct a thorough review of the content of these reporting standards and frameworks, engage with the organizations that have developed or adopted them, and carefully analyse the indicators and metrics used, including the robustness of the insights they provide and any gaps they leave unaddressed. The Working Group suggests that this analysis should inform Taskforce decisions on which indicators and metrics could be included in or cross-referenced under the TISFD Disclosure Framework.

The Working Group recognizes that the Taskforce will need to strike the right balance between maintaining the value of the approaches adopted by TCFD and TNFD and adapting them to address the specificities of inequality and social-related issues. Specifically, the TISFD should strive to align with the overarching structure of the disclosure frameworks delivered by these previous Taskforces, while ensuring that the framework's content adequately reflects the existence of international standards of conduct with regard to the impacts of business and finance on people (the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises), and the particular ways in which impacts on social issues lead to financial risks, including system-level risks such as inequality.

Together with disclosure recommendations on climate and nature-related issues, the TISFD's recommendations can represent a tool to facilitate efforts towards a just transition, in which climate-, nature- and social- and inequality-related risks and impacts are addressed in a coherent and complementary way.

Finally, the Working Group recognizes that a Taskforce on inequality and social-related issues will need to ensure that it does not perpetuate inequalities in the effort to address them. It will therefore be important that it include participation by civil society, labor organizations and marginalized groups alongside investors and business in the Taskforce's structures, deliberations and decisions.

## 5. Proposed Outputs

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

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

## 6. Intended Outcomes and Impacts

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

To do so, the TISFD will focus on the delivering the following outcomes:

- Companies and financial institutions understanding their impacts and dependencies on people and strengthening their identification, measurement, management and disclosure of inequality and social-related impacts and the associated financial risks and opportunities
- Financial institutions recognizing inequality as a system-level risk (and missed opportunity, as concerns the benefits of reducing inequality), understanding the aggregate impacts of both investees and their own activities on inequalities; and integrating this understanding in their assessment of financial risks and how they allocate and price capital, engage with investees, and structure investments
- Standard-setters and policy makers embedding TISFD recommendations in reporting standards and laws, fostering global harmonization
- Benchmarking and rating providers improving the accuracy and relevance of social-related benchmarks and ratings
- Civil society organizations being able to hold companies and financial institutions to account for how they address inequality and social-related issues
- Governments, financial supervisors and macroprudential authorities using disclosures to formulate more effective policies and strategies for the safeguarding of societies and financial systems



## 7. Gaps and Weaknesses in Metrics and Indicators

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



### Learn More

To learn more about TISFD, including opportunities for further engagement, please visit [www.TISFD.org](http://www.TISFD.org).