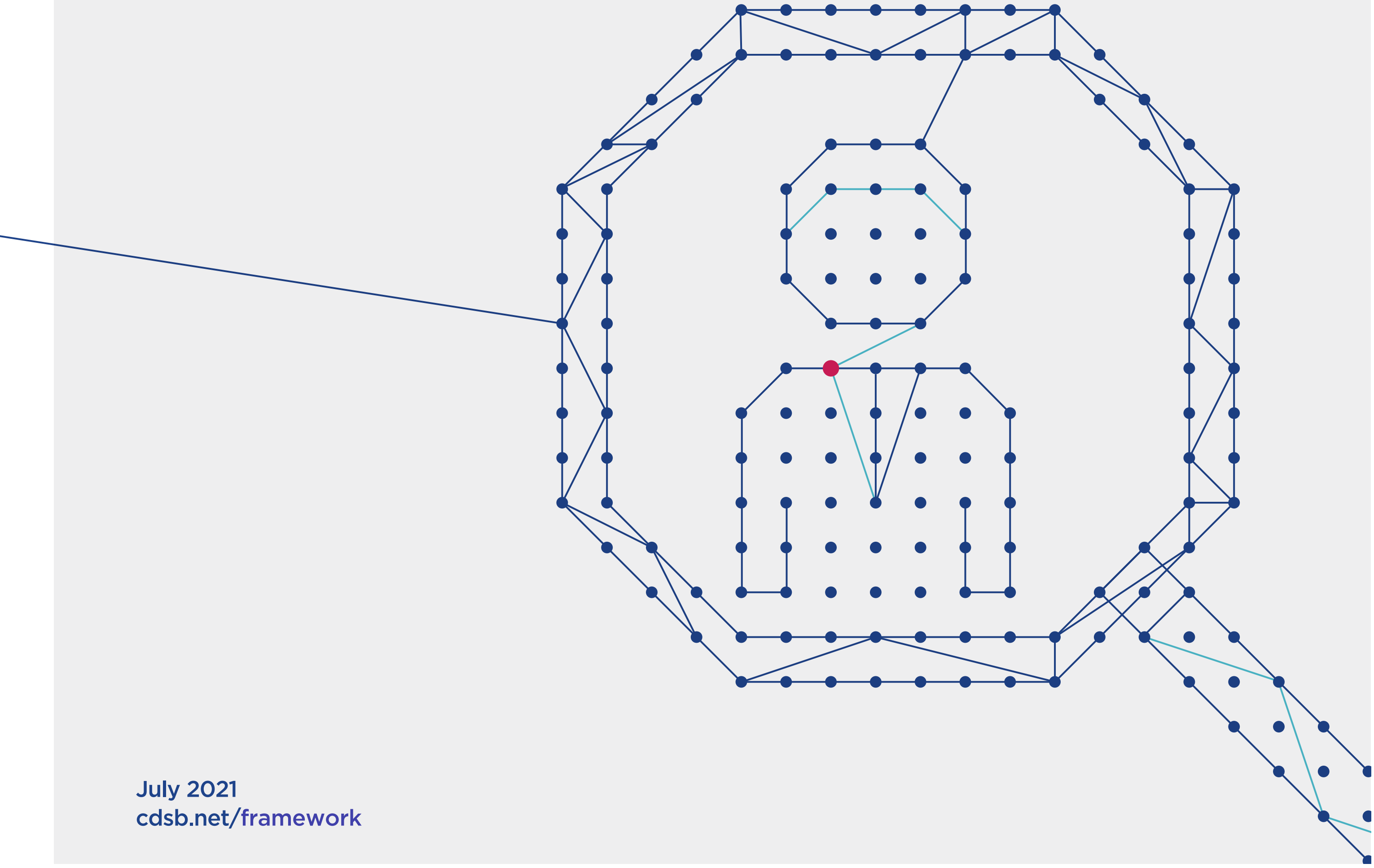
CDSB Climate Disclosure Standards Board

Corporate reporting on social matters

CDSB position paper



July 2021
cdsb.net/framework

CDSB technical guidance will form part of the evidence base as the ISSB develops its IFRS Sustainability Disclosure Standards. CDSB's Framework and technical guidance on Water, Biodiversity, and Social disclosures will remain useful for companies until such time as the ISSB issues its IFRS sustainability disclosure standards.

Contents

Executive summary

Recent years have seen growth in the understanding of the significance and centrality of social issues to companies globally, with a growing appreciation of the importance of their risks and opportunities to business success. For many companies and market actors, the events of 2020 and the Covid-19 pandemic have rightly underscored the importance of social issues to them and emphasised the need for change across the economy.

In these same years, we have also witnessed an increasing number of requirements around the world seeking the disclosure of social metrics and information, such as in the UK and Australia around modern slavery or in the US on human capital. What's more, it is apparent that the sophistication and comprehensiveness of these social reporting requirements will continue to develop and increasingly focus on the mainstream report[1] for disclosure, as in the case of the proposed Corporate Sustainability Reporting Directive and likely developments in due diligence in the EU.

Our understanding of social and wider sustainability risks and opportunities is also evolving in important ways. Key are the interconnections between social and environmental issues and important implications they can have for company performance. In addition, how we understand materiality is developing, with greater importance placed on the dynamic nature of sustainability issues and their potential financial and business impact.

However, considering the present standard of social reporting, it is clear that many companies are failing to meet current expectations for high-quality disclosure, let alone well prepared for expected market developments. Too often, social disclosures are made up of discrete, unconnected metrics and boilerplate statements, instead of focussing in on the social risks and opportunities that matter most to companies, investors and people.

While there are many contributing factors to these concerns, greater guidance and direction will assist companies in developing mainstream disclosures useful for investors and apace with market developments. Analysis importantly shows a gap for a definitively mainstream reporting approach to financially material social issues. We see that CDSB's approach to corporate disclosure, which is aligned with that of the Task Force on Climate-related Financial Disclosures (TCFD) and the International Financial Reporting Standards (IFRS), could meet this need and significantly benefit the disclosure of financially material social information in the mainstream report.

By focussing reporting on issues that are material to companies and promoting disclosures that are comprehensive, rigorous and well-connected across sustainability and financial information, we see that both report preparers and users could be best served by CDSB's approach. Additionally, building on CDSB's well-developed work on mainstream climate and environmental reporting offers an ideal means of taking account of the increasingly important interconnections across financially material sustainability issues.

For these reasons, CDSB will be expanding its scope to also encompass financially material social issues and update its reporting framework in the coming year. CDSB will consolidate and build on existing best practice and guidance to produce a framework that's well-aligned with mainstream guidance and practice and take further steps to develop reporting practices for financially material social and environmental issues. The updated CDSB Framework will offer companies the evolution in mainstream sustainability reporting they need to understand and control increasingly dynamic sustainability risks and seize the opportunities of transitioning to more equitable and clean models of growth.

This update to the CDSB Framework will be completed at the same time as efforts by the IFRS Foundation to establish an International Sustainability Standards Board (ISSB), which CDSB is in support of and contributing to. If established, CDSB sees that the findings and technical resources of this update to the CDSB Framework will be beneficial to the standard-setting work of the future ISSB.

1 Mainstream reports are the annual reporting packages in which organisations are required to deliver their audited financial results under the corporate, compliance or securities laws of the country in which they operate.

Introduction

"The more your company can show its purpose in delivering value to its customers, its employees, and its communities, the better able you will be to compete and deliver long-term, durable profits for shareholders."

Larry Fink's 2021 letter to CEOs[2]

The Covid-19 pandemic has brought disruption to the world that in 2019 would have been unimaginable to nearly all. Like all times of disruption, the pandemic has surfaced tensions, inequalities and injustices that long predate 2020. As data becomes clearer, we see that the impacts of the virus are far from indiscriminate, following existing and intersecting social fault lines of race, class, deprivation, and health.[3] In connection, the crisis has demonstrated, no matter the circumstances, the simple fact of who must still go to work, and who the workers and organisations are that constitute the foundations on which our societies and prosperity lie. This demonstration has further revealed the widespread undervaluing of such crucial labour, whether through poor hourly rates, precarious contracts, or unsafe working conditions.

It is the case, though, that most companies, if not all, have over the last year connected the importance of their employees and relationships through the value chain to their success. The process of suddenly and wholly reimagining how we work in these conditions has necessitated an evaluation of what is truly essential for the functioning of companies around the world. This builds on the growing understanding of the importance of intangibles to corporate value and performance, which today account for an estimated 90% of S&P 500's market value.[4] The financial materiality of social issues and the risks and opportunities they pose have never been higher up on the agenda for many companies.

The importance of social issues and of relevant, high-quality and decision-useful information is also increasingly clear across the market, as evidenced by Larry Fink's most recent letter to CEOs. Following 2020, the momentum around social issues has grown further. There are ambitions around the world to build back better and more effectively respond to existing inequalities and injustices. As part of such efforts, regulators are increasingly requiring the largest companies to report consistently and comparably on social topics and against specific metrics. Importantly, there is mounting emphasis in major economies like the EU and US for corporate reporting on financially material social in the mainstream report.

At the same time, though, there is growing concern about the quality of social information available to investors and the market. Where in other areas of corporate reporting on sustainability issues there has been step changes in reporting, most notably on climate-risk, the same cannot be said for many social issues. A lack of high-quality information on material social issues frustrates effective capital allocations and also hinders companies – it exposes them to risks, leaves opportunities unrealised, and undermines value creation.

2 BlackRock (2021) Larry Fink's 2021 letter to CEOs. [Online]. Available from: https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter

3 Stiglitz, J. (2020) Conquering the Great Divide. [Online]. Available from: https://www.imf.org/external/pubs/ft/fandd/2020/09/COVID19-and-global-inequality-joseph-stiglitz.htm

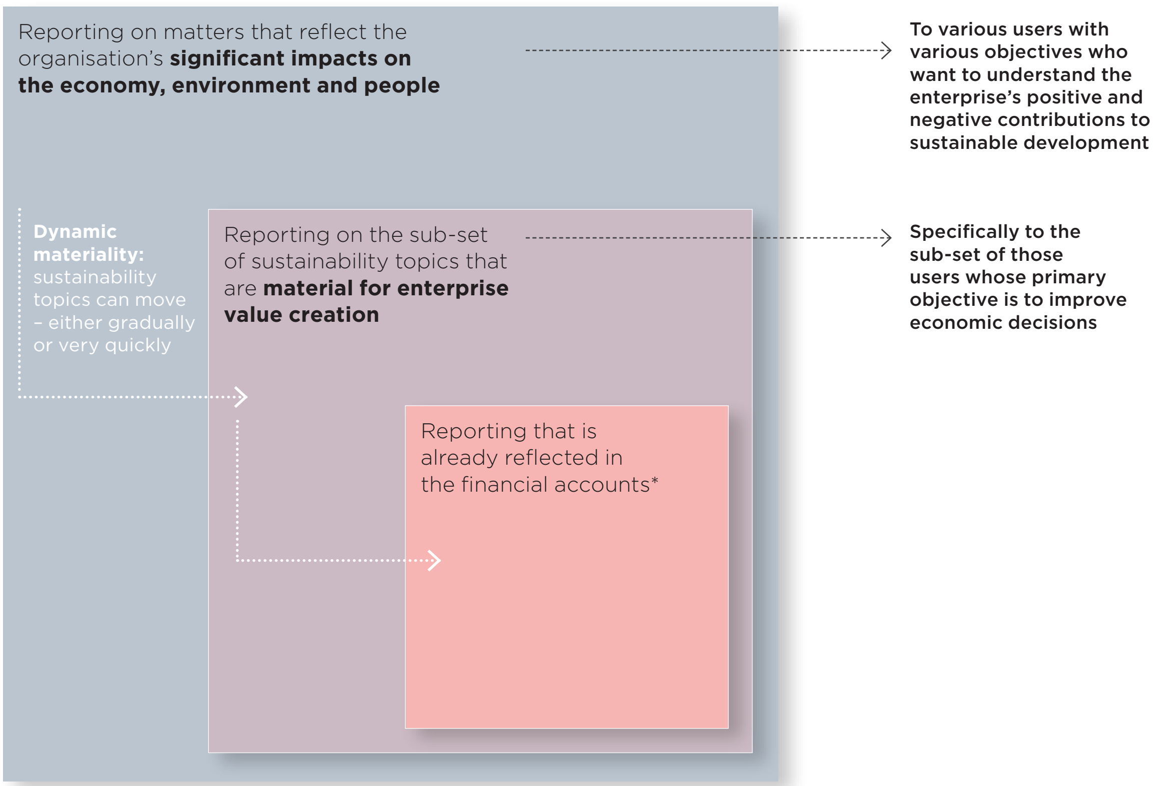
4 Jarzebowski, M. (2020 As Intangible Assets Grow, So Does the Role of ESG Standards. [Online]. Available from: https://www.forbes.com/sites/forbesfinancecouncil/2021/12/29/as-intangible-assets-grow-so-does-the-role-of-esg-standards/?sh=152da52d4d44

As investor and market demands grow around social reporting, with greater emphasis on financial materiality and mainstream reporting, there risks being a greater deficit in high-quality and decision-useful social information. Indeed, this is especially the case when we appreciate two other connected factors that are increasingly important to corporate sustainability and reporting, and whose significance was underlined during the pandemic. First, are the vital interconnections between social and environmental issues faced by companies, and important financial and strategic implications these relationships may pose to them.

And second, the nested and dynamic nature of materiality for companies (see Figure 1), where risks and opportunities may quickly move from being important for impact measures to being important to the financial bottom line, as has been explored by CDSB with other reporting organisations.[5]

These concerns with the quality and usefulness of current social reporting, the growing demands from the market and regulators around financially material and mainstream social information, and the important interlinkages between social and environmental issues raises important questions for reporting organisation. Are existing reporting frameworks and standards equipped for delivering financially material and decision-useful social information? What developments are necessary to keep pace with market developments in this space? And for CDSB, whether its approach and the principles and reporting requirements of the CDSB Framework could benefit the disclosure of financially material social information also?

Figure 1 – Representation of dynamic and nested materiality. (Source: https://impactmanagementproject.com/structured-network/statement-of-intent-to-work-together-towards-comprehensive-corporate-reporting/)



*Including assumptions and cashflow projections

5 CDP, CDSB, GRI, IIRC and SASB (2020) Statement of intent to work together towards comprehensive corporate reporting. [Online]. Available from: https://impactmanagementproject.com/structured-network/statement-of-intent-to-work-together-towards-comprehensive-corporate-reporting/

Paper outline

1. First, an explanation of CDSB's approach is provided, explaining how the CDSB Framework and its principles and requirements could be beneficial to reporting financially material social as well environmental issues.

2. Second, a survey is offered of key reporting regulations and expected regulatory developments and the present suite of reporting frameworks and standards for social issues, with gaps and concerns identified for potential development.

3. Third, drawing on existing and new research and engagement with stakeholders and experts, a review of the quality of current social reporting is presented, with key limitations and broader issues with reporting highlighted.

4. From these two sets of findings, it is argued that the approach offered by the CDSB Framework would benefit report preparers and users for financially material social as well as environmental issues, providing the market with the means for TCFD-style reporting across sustainability topics. It is therefore proposed that CDSB widens its scope to include social issues and accordingly develop its reporting framework and technical work.

5. Finally, it is set out that the update of the CDSB Framework needs to be an act of evolution as well consolidation, with identification of important areas of development for the immediate and longer-term work of CDSB, before a set of next steps are provided.

This paper seeks to answer these questions and does so in appreciation of the important developments underway within the IFRS Foundation and the proposed establishment of the ISSB to accompany the International Accounting Standards Board (IASB).[6] CDSB is wholly supportive of this work, aligned with its ambitions, and is at the time of writing supporting efforts towards the establishment of the ISSB via participation in the Technical Readiness Working Group (TRWG).

The research and findings of this paper and planned technical developments going forward will likewise feed into work of the future ISSB as it moves ahead as planned with issues beyond climate in 2022, accelerating the development of global sustainability-related standards.

6 IFRS Foundation (2021) IFRS Foundation Trustees announce strategic direction and further steps based on feedback to sustainability reporting consultation. [Online]. Available from: https://www.ifrs.org/news-and-events/news/2021/03/trustees-announce-strategic-direction-based-on-feedback-to-sustainability-reporting-consultation/

The CDSB Framework and social issues

The CDSB Framework is designed around the existing components and structures of the mainstream report and encourages companies to employ the same materiality definition when reporting climate and environmental information as that used for all other information in the mainstream report.

As such, the CDSB and its framework are aligned with the ambitions and approach of the IFRS and the TCFD. The framework does not seek to reinvent the wheel but uses the trusted and well understood forms of the mainstream report to the benefit of reporting financially material environmental information. This approach emphasises the importance of detailing and justifying the governance and management arrangements in place for climate and environmental issues financially material to the company as well as the procedures and tools employed to understand and respond to the dependencies and risks connected to these issues. CDSB seeks to apply the rigour of the mainstream report to climate and environmental information to ensure that it is relevant, high quality and decision useful to investors.

The CDSB's seven reporting principles underpin the twelve reporting requirements offered in the framework (see Tables 1 and 2).[7] These requirements are centred on the financially material dependencies and risks of each company, encouraging deeply coherent and contextualised disclosures across areas such as governance, strategy, performance, and outlook, and are wholly aligned with the TCFD Recommendations (see Table 3).[8] The CDSB Framework is focused on going beyond discrete metrics and standardised statements and enhancing reporting on climate and environmental issues to the specificity of each company and its operations and ambitions. The framework seeks to offer investors a fuller qualitative and quantitative understanding of the risks and opportunities that a company faces and how well adapted the company is to ensuring value creation over the short, medium, and long term.

Table 1 and Table 2 (below), respectively show the reporting principles and reporting requirements of the CDSB Framework.

Table 1: Principles

P1. Relevance and materiality	P2. Faithfully represented	P3. Connected
P4. Consistent and comparable	P5. Clear and understandable	P6. Verifiable
P7. Forward looking		

Table 2: Reporting requirements

REQ-01. Governance	REQ-02. Policies, strategies and targets	REQ-03. Risks and opportunities
REQ-04. Sources of material impact	REQ-05. Performance and comparative analysis	REQ-06. Outlook
REQ-07. Organisational boundary	REQ-08. Reporting policies	REQ-09. Reporting period
REQ-10. Restatements	REQ-11. Conformance	REQ-12. Assurance

Taken broadly, then, the principles and requirements of the CDSB Framework are wholly appropriate for companies seeking to report effectively on its financially material social issues, with none of content elements unsuitable for these issues. The CDSB Framework could very much be adapted while maintaining its structure and overall ambition to encompass and interconnect environmental and social risks and opportunities for the benefit of report preparers and users. By adapting and updating the CDSB Framework, we could see the extension of TCFD-style reporting from climate to encompass all sustainability issues financially material for companies (see Table 3).

7 Climate Disclosure Standards Board (2019) CDSB Framework for reporting environmental and climate change information. [PDF]. Available from: https://www.cdsb.net/sites/default/files/cdsb_framework_2019_v2.2.pdf

8 Task Force on Climate-related Financial Disclosures (2017) Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures. [PDF]. Available from: https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf

With its clear and consistent approach to materiality and emphasis on the rigour and context of the mainstream report, an updated CDSB Framework could provide companies with the guidance needed to disclose relevant organisational and strategic information on their most important social concerns. Indeed, building on the organisation's expertise and experience in climate and environmental risks for companies, CDSB sees that this postulated evolution could provide the means of developing reporting guidance that better accounts for the important and deep interconnections of environmental and social risks and opportunities.

Table 3 illustrates the alignment of the TCFD Recommendations and the reporting requirements of the CDSB Framework.

It is appreciated that such a hypothesised expansion of the scope of the CDSB Framework would raise concerns on account of doubling efforts or creating confusion. CDSB has worked to harmonise the reporting landscape in many different ways, such as through the Corporate Reporting Dialogue and helping develop the Reporting Exchange, and is presently doing so in contributing to the IFRS Foundation's work to establish the ISSB. But such concerns of confusion need to be balanced with ensuring high-quality and decision-useful information is disclosed to the market on social and other financially material issues. This, CDSB believes, is best achieved through the mainstream reporting model and in connection with other sustainability and financial information.

Table 3: TCFD Recommendations

TCFD Recommendations	Key components of CDSB Framework
Governance (a) Describe the board's oversight of climate-related risks and opportunities	REQ-01
Governance (b) Describe management's role in assessing and managing climate-related risks and opportunities	REQ-01, REQ-02 and REQ-03
Strategy (a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	REQ-03 and REQ-06
Strategy (b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	REQ-02, REQ-03 and REQ-06
Strategy (c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	REQ-03 and REQ-06
Risk Management (a) Describe the organisation's processes for identifying and assessing climate-related risks	REQ-01, REQ-02 and REQ-03
Risk Management (b) Describe the organisation's processes for managing climate-related risks	REQ-01, REQ-02 and REQ-03
Risk Management (c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	REQ-01, REQ-02, REQ-03 and REQ-06
Metrics and Targets (a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	REQ-02, REQ-04, REQ-05 and REQ-06
Metrics and Targets (b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	REQ-04 and REQ-05
Metrics and Targets (c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	REQ-02

Overview of social reporting

Reporting requirements

In jurisdictions around the world, reporting requirements have been formulated to mandate or encourage the disclosure of social-related information from the largest companies.[9] These reporting requirements serve different purposes, using differing channels accordingly. In most countries, for example, companies are expected to report on incidents of unsafe working conditions or workplace accidents to designated authorities through special submissions. Alongside such disclosures, regulators are increasingly requiring companies to report in a public-oriented manner on matters relating to human rights, equality and diversity, labour practices, and customer and stakeholder relations.

In both the UK and Australia, designated companies are expected to produce statements on due diligence and management around modern slavery in their direct operations and supply chains. In the UK, this statement is to be published on the company's website,[10] while in Australia it is submitted to a publicly accessible repository site.[11] The usefulness of these modern slavery statements, though, has been brought into question on accounts of quality and granularity.[12] Compiling disclosures online is used similarly in the UK for its gender pay gap reporting, which requires companies with over 250 employees to report against a specified set of metrics.[13]

Major economies around the world are also mandating disclosure on social issues in the mainstream reporting channels of companies. Last year, the SEC in the US introduced that publicly listed companies should disclose in their filings, when material, their human capital resources and any associated objectives and measures.[14] Across the EU, the Non-Financial Reporting Directive has led large public-interest companies to report on issues pertaining to, amongst others, social and employee matters and respect for human rights, and the related policies, outcomes, risks, and indicators.[15] Importantly, the current review of the directive, in the shape of the proposed Corporate Sustainability Reporting Directive (CSRD), envisages mandating similar disclosures for large and listed companies operating in the EU in their mainstream reports and require mandatory assurance of the information.[16] Moreover, the EU is in the process of introducing legislation that would make human rights and ESG due diligence across supply chains an obligation for many companies operating in the EU, which could reframe the materiality of such issues for companies.[17]

9 See, for example, The Reporting Exchange. Available from: https://www.reportingexchange.com/

10 United Kingdom. Modern Slavery Act 2015. [Online]. Available from: https://www.legislation.gov.uk/ukpga/2015/30/contents/enacted

11 Australia. Modern Slavery Act 2018. [Online]. Available from https://www.legislation.gov.au/Details/C2018A00153

12 Business and Human Rights Resource Centre and Modern Slavery Registry (2021) Modern Slavery Act: Five Years of Reporting. [PDF]. Available from: https://media.business-humanrights.org/media/documents/Modern_Slavery_Act_2021.pdf

13 United Kingdom. The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017. [Online]. Available from: https://www.legislation.gov.uk/ukdsi/2017/9780111152010

14 Securities and Exchange Commission (2020) SEC Adopts Rule Amendments to Modernize Disclosures of Business, Legal Proceedings, and Risk Factors Under Regulations S-K. [Online]. Available from: https://www.sec.gov/news/press-release/2020-192

15 European Union. Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014. [Online]. Available from: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095

16 European Union. Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting. [Online]. Available from: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189

17 European Parliament. European Parliament resolution of 10 March 2021 with recommendations to the Commission on corporate due diligence and corporate accountability. [PDF]. Available from: https://www.europarl.europa.eu/doceo/document/TA-9-2021-0073_EN.pdf

In addition to this sample of national and regional regulations, international organisations have set out principles and expectations for companies around the world on social matters. The ILO's eight fundamental conventions have been implemented around the world, establishing the basic principles and rights of work.[18] Six of the ten principles of the UN Global Compact, which are derived from the agreements of different UN bodies, pertain to labour and human rights issues. In more detail, the UN Guiding Principles Reporting Framework sets out the expectations for embedding and reporting on the UN Guiding Principles on Business and Human Rights.[19] Formed of seven overarching principles and eight key questions for companies to answer, with 23 more detailed questions designed to further practice and reporting, the framework sets clear asks for the governance and management of human rights risks.[20] The OECD Guidelines for Multinational Enterprises lays out expectations for responsible business practice, encouraging companies to report on its policies and performance around, for interests of this paper, human rights, employment and industrial relations, and consumer relations.[21] Moreover, the OECD has also produced due diligence guidance, which sets out six key processes for multinationals and other appropriate companies.[22]

These regulations and international norms demonstrate the centrality of social issues to understandings and measures of responsible and sustainable business practice. While the considered regulations do demonstrate development in social reporting practices, with steps towards higher-quality, mainstream reporting on these issues, there has not yet been similar innovation as we have seen in environmental reporting with the growing market and regulatory support around the TCFD and the mainstreaming of climate risk.

Reporting frameworks and standards

Alongside these regulations and international norms, a growing number of organisations and initiatives offer the market voluntary frameworks and standards that are designed to enhance the management of social issues and associated disclosure. In Appendix 1, a summary of key frameworks, standards and initiatives is offered, taking note of their purpose, scope, audience, and channel of disclosure.

While it is the case that each seeks companies to develop high-quality, decision-useful, and impactful social information, the frameworks and standards studied possess different users, reporting channels and ambitions for the information. For example, GRI focusses on a multi-stakeholder approach centred on the reporting entity's impacts that has typically been disclosed in separate sustainability reports, while SASB's standards and metrics are designed to cater for the information needs of investors to affect capital decisions. These differing perspectives and ambitions can each serve corporates uniquely, but they do also raise issues of potential overlap, duplication and unnecessary difference, especially when companies use combinations of frameworks and standards. For example, the social metrics recommended by World Economic Forum (WEF) are drawn from the work of both GRI and SASB, amongst others. This presents the question of how a company should navigate these similarities and differences.

18 ILO Conventions are available from: https://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang--en/index.htm

19 United Nations (2011) Guiding Principles on Business and Human Rights. [PDF]. Available from: https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf

20 Shift and Mazars (2015) UN Guiding Principles Reporting Framework. [PDF]. Available from: https://www.ungpreporting.org/wp-content/uploads/UNGPReportingFramework_2017.pdf

21 OECD (2011) OECD Guidelines for Multinational Enterprises. [PDF]. Available from: https://www.oecd.org/daf/inv/mne/48004323.pdf

22 OECD (2018) OECD Due Diligence Guidance for Responsible Business Conduct. [PDF]. Available from: for http://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-for-Responsible-Business-Conduct.pdf

Another point of divergence for the frameworks, standards, and guidance is the definitions they employ for the "S" of ESG. For those focussed on providing companies with standardised metrics, such as GRI, SASB and WEF, these definitions are composed more substantively from the numerous topics they have designed their indicators around. By contrast, the Capitals Coalition and IIRC – like CDSB – are principles-based and therefore employ more overarching definitions of human and social capital to assist companies in organising their thinking and action, with both organisations illustrating their definitions with topics that overlap with those used by the standard setters. The high level of similarity between these definitions indicates a more aligned understanding of broadly what matters for business and society, but the differences that do exist hinder the complementarity of the resources, creating burden for companies wishing to use them together.

Of the highlighted initiatives, the majority focus on providing companies with a standardised set of social indicators and metrics to report against, with the ambition of offering report users with a potential means of achieving consistent and comparable understanding of the social aspects of sustainability. While standardised indicators and data points can certainly contribute to understanding performance against targets and measuring progress, they do not offer all that report users need from preparers on social matters financially material to their companies, such as around the governance and risk management of these issues.

The perspectives, measuring and valuation approaches offered by the Capitals Coalition's Social & Human Capital Protocol is an important means of developing these organisational practises internally. Moreover, the criteria of the WBA assessment can assist companies in developing their approaches and improving the quality of their reporting. The International <IR> Framework, meanwhile, offers companies an approach of reporting to investors and other interested stakeholders with its multi-capital approach, which emphasises the importance of integrated thinking towards long-term value creation. While certainly complementary and sharing much, as has been demonstrated elsewhere, CDSB differs to IIRC by sticking more rigorously to the conventions and expectations of mainstream reporting.

This gap analysis shows that there are many beneficial resources designed to assist companies in reporting on social issues for a range of ambitions. There is not presently, though, a reporting framework for these issues that is committed wholly to the approach, materiality and structures of the mainstream reporting model. This is the approach of CDSB and that of IFRS Foundation's proposed ISSB. These results, taken together with the noted developments towards the mainstream reporting of social issues in regulation, suggests a need for improved guidance for companies on such reporting.

Quality of social reporting

The regulations, frameworks, standards and guidelines exampled above, in combination with many other regional, national, sectoral or issue-specific initiatives, have resulted in a proliferation of disclosures from companies on social issues through various reporting channels. For example, examining a Bloomberg Terminal would show us row-upon-row of discrete disclosures and data points relating to social sustainability from companies around the world. However, we may question the value of these volumes of information in terms of verifiability, consistency, comparability and connection with financial risks and opportunities.

In a study of the social component of around 500 companies' reporting and of eight major ESG rankings, ratings and benchmarks, Shift found that 70% of the indicators were based on words in documents, stated activities and their near-term outputs, with it argued that "the presence of these things is often not a good indicator of whether a company is managing risks to people effectively." Instead, it was argued that attention should be paid to those indicators that are hard-wired into the business model, governance, and management of companies.[23] The last year has offered two examples that could be understood as illustrating this present deficiency: Rio Tinto, regarded as an industry leader on social matters, destroyed two sacred sites in Australia despite the protests of the Puutu Kunti Kurrama and Pinikura peoples;[24] and Boohoo, graded AA by the rating agency MSCI, was uncovered to source clothes made by workers paid far below the minimum wage in the UK and subject to unsafe conditions.[25]

Similar such findings can be found in the work of the Corporate Human Rights Benchmark and the Workforce Disclosure Initiative, two projects assessing the quality of corporate actions and reporting on workplace and human rights issues. The 2020 findings of the former show poor results from the majority of companies, with only slow progress in practice and disclosure noted across sectors. In particular, the authors of the report draw attention to companies failing to meet investors' expectations on human rights due diligence, and a concerning disconnect apparent between companies' commitments and disclosed strategies on human rights and impacts on the ground.[26]

The most recent results from the Workforce Disclosure Initiative show low completion rates to the annual survey, with the most experienced companies still completing less than half of the questions. The areas with the lowest completion were the composition, compensation and development of direct employees, and the structure of supply chains and workers' rights within them. The report highlights that companies commonly have policies or commitments in place but provide little information on how they are implemented, a finding which adds further weight to the concerns raised by Shift.[27]

To gather a perspective on mainstream reporting on social issues, CDSB has analysed data collected by the World Business Council for Sustainable Development (WBCSD) on the risk disclosures made by close to 300 companies in their 2018, 2019 and 2020 sustainability and mainstream reports (see Figure 2). Comparing the ESG risks identified and reported by companies in their mainstream and sustainability reports, we find the greatest misalignment of reported risks related to social and human rights issues over the three years.

23 Rees, C. and Eccles, R.G. (2020) Quantify Your Company's Impact on People. [Online]. Available from: https://hbr.org/2020/09/quantify-your-companys-impact-on-people

24 Cochrane, G. (2020) Rio Tinto's aboriginal desecration shows folly of rote ESG. [Online]. Available from: https://www.ft.com/content/1c8bf4e9-2358-4850-9733-c5705033f873

25 Mooney, A. and Nilsson, P. (2020) Why did so many ESG funds back Boohoo? [Online]. Available from: https://www.ft.com/content/ead7daea-0457-4a0d-9175-93452f0878ec

26 World Benchmarking Alliance (2020) Corporate Human Rights Benchmark: 2020 Key Findings. [PDF]. Available from: https://assets.worldbenchmarkingalliance.org/app/uploads/2020/11/WBA-2020-CHRB-Key-Findings-Report.pdf

27 Workforce Disclosure Initiative (2020) Workforce Disclosure in 2019: Trends and Insights. [PDF]. Available from: https://shareaction.org/wp-content/uploads/2020/04/WDI-findings-report-2019-web.pdf

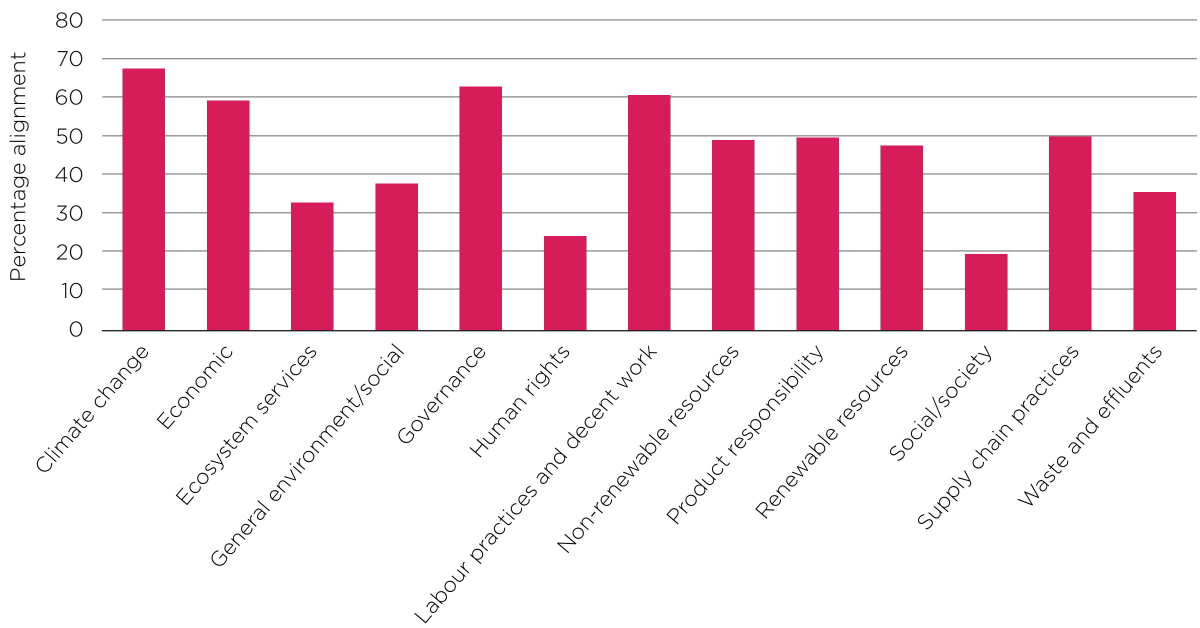
For these two issues, we find the level of alignment between these companies mainstream risks and sustainability risks averaging 19.6% and 24.2% respectively. In contrast, risks relating to labour practices showed the third highest level of alignment, with 60.1% the labour practice related risks reported in companies' sustainability reports reported also in their mainstream reports, behind only governance and climate change issues for the companies analysed.

This misalignment between social and human rights related risks identified in the sustainability reports of companies and those reported in their mainstream reports may be explained in several manners. For instance, it could be understood that such social risks meet the criteria of multi-stakeholder approaches to materiality and not those of financial materiality. However, this does not explain the difference of alignment between these and other sustainability issues. Instead, the rapidly evolving and highly dynamic nature of social risks as well as evolving understandings of their potential impacts on companies appears significant.

This lack of mainstream, financially material risk disclosures does not equate to a general lack of disclosures on social issues in companies' mainstream and other reports. It has been clear from discussions with key stakeholders and subject matter experts, that the issues around corporate social disclosure is not a dearth of information, but that the quality, relevance, and decision-usefulness of it for investors is the problem. It was noted that socially focussed disclosures are too often based on case studies, boiler plate statements and metrics that are not substantive nor connected with the financially material concerns of the company.

There are many overlapping means of explaining the concerns raised of the present standard of social reporting, some of which have been noted above and others which will be particular to specific businesses or industries. However, it remains the case that the quality and usefulness of corporate reporting on financially material social risks and opportunities is below the desired standard for effective decision-making in terms of comprehensiveness, comparability, and verifiability. This shortfall is more concerning when we consider that expectations for social reporting are growing, as exampled by the upcoming EU due diligence legislation, and that greater importance is rightly being placed on the dynamic interconnections between these and environmental issues. There is a risk of social reporting falling even further behind expectations and needs of investors and other decision-makers.

Figure 2 – Average alignment of risks reported by companies in their sustainability and mainstream reports relating to each ESG issue, 2018-2020 (CDSB analysis using WBCSD data)



What does this mean for CDSB?

Challenges exist with the present practices of reporting consistent, comparable, decision-useful information on social issues, particularly for material social issues in the mainstream report. As noted, the challenge is not necessarily one of volume of data, but more one of quality, rigour, and context of that information.

The reasons for this are multiple. For one, we should appreciate the importance of clearly thought out and defined reporting regulations in driving quality disclosure, which like across all sustainability issues could certainly be improved for social issues around the world. Second, clearer signals and concrete asks from key investors, as has been the case around climate risk and TCFD-aligned reporting, would further encourage the development of mainstream reporting on financially material social issues.

From CDSB's perspective as a framework provider, it is apparent that companies could also be better served in guidance for reporting comprehensively on financially material social issues that are most relevant to their strategies, risks and opportunities, and value creation. This need will become even starker as social issues continue to rise up the market agenda and demands for mainstream, financially material social reporting. Moreover, as the pandemic and developments such as calls for a just, low carbon transition demonstrate, the essential links between society and environment are increasingly clear, meaning that companies are increasingly facing compounding and interconnecting systemic risks.[28]

It is with appreciation of this – of the current state of reporting and expected developments, the growing importance of social issues to companies, investors and regulators, and the important and dynamic interconnection of social and environmental issues – that CDSB is setting out to expand the scope of its reporting framework and technical work to suitably accommodate financially material social issues. This will see CDSB provide the market with the framework for TCFD-style reporting across all financially material social and environmental issues and offer companies the means of reporting decision-useful information that meets ever-developing needs and expectations of users.

It should be stressed, that it is also appreciated that the proposal may raise concern for parties on the grounds of doubling effort or creating confusion. However, CDSB will build on what is already offered to companies, taking forward the reporting practices for financially material social and environmental issues. Analysis shows a gap for a definitively mainstream reporting approach to financially material social issues, and that this would be very much complementary to CDSB's existing resources and other management frameworks and indicator standards.

It is clear from research and was indeed reiterated by stakeholders and experts that it is not only consolidation that is needed, but an evolution of reporting for social matters. The ambition of CDSB in this expansion of scope is exactly that. This ambition will be taken by CDSB into its role in assisting the IFRS Foundation in its establishment of the ISSB. If successfully established, it is hoped that the efforts taken in expanding the scope and developing the CDSB Framework will be useful to the future standard-setting work of the ISSB.

28 UN Development Programme (2020) The next frontier: Human development and the Anthropocene. [PDF]. Available from: http://hdr.undp.org/sites/default/files/hdr2020.pdf

Areas of development

This evolution and expansion of CDSB's focus to meet the particularities of social issues via mainstream and financially material reporting will necessitate change and addition to the CDSB Framework. From carefully considering the CDSB Framework, the findings presented in this paper and from wider discussion with experts and stakeholders, seven key areas for development have been identified:

- Definitions of "S"
- Stakeholder engagement
- Due diligence
- Materiality and metrics
- Dynamic materiality, uncertainty, and resilience
- Outlook for social issues
- From interconnected to systemic

Appendix 2 provides detailed explanations of each of these areas of development and how they may be responded to in updating the CDSB Framework and wider technical work.

These areas of developments will importantly draw on and align with the regulations and mainstream reporting guidance and practices discussed above and will further benefit the mainstream reporting on other financially material issues beyond social. Some of these developments will be more straightforward and immediately achievable, while others will demand innovation and longer-term efforts by CDSB and other actors in the reporting landscape. Importantly, work on these areas of development could also be fed into and benefit the ISSB in its standard-setting work, if established, on issues beyond climate.

Next steps

CDSB will work across 2021 to update the CDSB Framework and other resources to support companies in reporting financially material social and environmental information. In the third quarter of the year, a consultation draft of the updated CDSB Framework will be released. Following the period of consultation, comments and suggestions received will be consolidated and actioned accordingly. The finalised update of the CDSB Framework will be released before the end of 2021.

In the meantime, and as noted earlier in this paper, the principles and reporting requirements of CDSB Framework, taken broadly, can apply to equally to social as well as environmental issues. They offer the basis for report preparers to act today if social issues are material to your business.

This important work will also play a role in CDSB's assistance into the efforts to successfully establish the IFRS Foundation's ISSB via contributions to the TRWG. Looking forward into 2022, with the updated CDSB Framework published, this and other CDSB technical resources can provide input into the ISSB's proposed work plan of developing of global sustainability-related standards.

Appendix 1: Mapping of key reporting and management standards and framework for social issues

Resource	Purpose	Social scope and definitions
Social & Human Capital Protocol[29] Capitals Coalition	The Social & Human Capital Protocol is intended as a **generally accepted framework for businesses to measure and value social and human capital**. In setting out the foundation principles for measuring and valuing, it aims to make businesses that truly value people more successful by mainstreaming the assessment of social and human capital – shifting the consideration of social and human capital performance from an optional extra to a **core part of business decision-making**.	**Human capital:** The knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being. **Social capital:** Networks together with shared norms, values and understanding that facilitate cooperation within and among groups.
GRI 400 Series[30] GRI	The GRI Standards are designed to be used by **companies to report about their impacts** on the economy, environmental and people, and therefore their **contribution to sustainable development**. The Standards aim to create a common language between companies and stakeholders and enhance the quality and comparability of impact reporting. The GRI 400 Series provides topic-specific standards for companies to report against social topics on which they determine they have a material impact.	The GRI 400 Series is composed of **nineteen topic-specific standards for social issues**. The standards of the series take is employment practices and conditions, human rights, community and customer relations, and supply chain concerns.
International <IR> Framework[31] Internal Integrated Reporting Council (IIRC)	To establish the principles and content elements **that govern the structure and substance of an integrated report**, which is a concise communication about how a company's strategy, governance, performance and prospects, in the context of its external environment, lead to the **creation, preservation or erosion of value over the short, medium and long term**.	**Human capital:** People's competencies, capabilities and experience, and their motivations to innovate. **Social and relationship capital:** The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being
SASB Standards[32] The Sustainability Accounting Standards Board (SASB)	SASB Standards are **industry-specific disclosure standards across environmental, social and governance topics** that facilitate communications between companies and investors about **financially material, decision-useful information**. The Standards surface issues that are likely material for companies of different sectors and industries and offers financially impactful indicators to benefit usefulness, consistency, and comparability.	SASB organises around five dimensions of sustainability including social and human capital. These dimensions are further broken down into general issue categories, with social capital possessing eight and human capital three categories. **Social capital:** This dimension addresses a company's impact on external stakeholders and the management of those stakeholder relationships, including a company's license to operate. **Human capital:** This dimension addresses issues that affect a company's workforce, which is often a key resource to delivering long-term value.
The social transformation framework[33] World Benchmarking Alliance (WBA)	The World Benchmarking Alliance (WBA) develops **free and publicly available benchmarks that measure and incentivise company contributions towards the Sustainable Development Goals (SDGs)**...The social transformation seeks to achieve universal human development by respecting human rights, promoting equality and empowering people to pursue the opportunities and choices they value. It sits at the heart of WBA's model, underpinning and enabling the food, energy, circular, digital, urban and financial system transformations.	Three key enablers – **respecting human rights, providing and promoting decent work, and acting ethically** – group the twelve societal expectations identified for companies.
Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting on Sustainable Value Creation[34] World Economic Forum (WEF)	To assist the reporting **consistency and comparably on key dimensions of sustainable value, universal and industry-agnostic metrics and disclosures drawn from existing practices** are recommended for companies to report against in the mainstream report.	**People pillar:** Dignity and equality, health and well-being, and skills for the future **Prosperity pillar:** Employment and wealth generation, innovation of better products and services, and community and social vitality
CDSB Framework for reporting environmental and climate change information[35] CDSB	The CDSB Framework sets out an approach to **reporting environmental information in mainstream reports that aligns with and complements the objective of financial reporting**, i.e. to provide environmental information about that is connected with financial and other information and is useful to present and potential equity investors in decision making	N/A

29 Capitals Coalition (2019) Social and Human Capital Protocol. [PDF]. Available from: https://capitalscoalition.org/wp-content/uploads/2021/01/Social_and_Human_Capital_Protocol.pdf

30 GRI 400 Series available from: https://www.globalreporting.org/standards/

31 International Integrated Reporting Council (2021) International <IR> Framework. [PDF]. Available from: https://integratedreporting.org/wp-content/uploads/2021/01/InternationalIntegratedReportingFramework.pdf

32 SASB Standards are available from: https://www.sasb.org/standards/

Content	Channel and audience
The Social & Human Capital Protocol is designed around four stages – **framing, scoping, measuring and valuing, and applying** – with nine steps for companies to follow. For these steps, key questions and actions are offered to guide companies in measuring and valuing effectively and comprehensively.	As a management framework, the Social & Human Capital Protocol **does not have a defined reporting channel or audience**. Instead, the guidance is expected to be integrated into business processes, including annual reporting, with the Protocol citing both mainstream and sustainability reports as appropriate.
Each of the standards of the 400 Series offers companies a set of **highly specific reporting requirements, which encompass both qualitative and quantitative indications**, as well as topic contextualisation and reporting guidance. In addition, the Universal Standards provide reporting companies with principles to follow in crafting disclosures as well as structures for reporting on organisational perspectives and management approaches.	The GRI Standards and 400 Series are designed for **sustainability reporting**, which centres on corporate impact and contribution to sustainable development. A broad **stakeholder audience** is served by the GRI Standards.
The <IR> Framework explicates the fundamental concepts to integrated thinking and reporting, before presenting report preparers **with seven guiding principles and eight content elements** which provide for the structure and substance of an integrated report. The elements align with key business processes and mainstream reporting content.	An **integrated report** should be a designated and identifiable communication that explains to **providers of financial capital** how an organisation creates, preserves or erodes value over time.
Each industry-specific standard provides **sustainability accounting metrics – quantitative, qualitative or analytical – for the likely material issues faced by the each industry**. These performance measures are adapted to the specificities of each industry. Accompanying the accounting metrics is application guidance to assist companies in disclosure practices. Social capital issues are identified as material for 52 of the 77 industries used by SASB, and 44 for human capital issues.	The SASB Standards are designed **primarily to facilitate disclosures that are useful to investors, lenders, and other creditors** for the purpose of making investment decisions on the basis of short-, medium-, and long-term financial performance and enterprise value. The **SASB Standards are complementary** to, and can be used in conjunction with, not only traditional financial accounting statements, but also with standards designed to guide communication to multiple stakeholders about a company's impacts on society and sustainable development.
For the twelve societal expectations, **eighteen core social indicators** have been developed to assess the largest and most impactful companies and benchmark accordingly. The indicators are both qualitative and quantitative, concerning policies, governance and management, and results and targets, for instance. The expectations and indicators serve to guide and change corporate behaviour and disclosure.	Results from **benchmarking** process will be published for an intended audience of **investors and banks, governments and multinationals, and civil society and media**.
Companies are offered a **core set of metrics and disclosures** and an **expanded set**, which encompass less well-established but more sophisticated indicators for topics. For the people pillar, there are six core and nine expanded metrics and disclosures, with five and seven, respectively for prosperity.	The recommended metrics are to be disclosed by companies in their **mainstream reports**, integrating them into governance, business strategy and performance management, for use by **shareholders and stakeholders**.
The CDSB Framework provides companies with **seven guiding principles and twelve reporting requirement**s to guide the disclosure of robust and decision-useful climate and environmental information in the mainstream report.	The CDSB Framework is designed to help organisations report environmental information in **mainstream reports** and therefore the intended audience is **investors** as they are the primary users of mainstream reports.

33 World Benchmarking Alliance (2021) Social transformation framework: To measure and incentivize companies to leave no one behind. [PDF]. Available from: https://assets.worldbenchmarkingalliance.org/app/uploads/2021/02/WBA-Social-Transformation-Framework-FINAL.pdf

34 World Economic Forum (2020) Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation. [PDF]. Available from: http://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf

35 Climate Disclosure Standards Board (2019) CDSB Framework for reporting environmental and climate change information. [PDF]. Available from: https://www.cdsb.net/sites/default/files/cdsb_framework_2019_v2.2.pdf

Appendix 2: Detailed explanation of area of development

Area of development	Explanation
Definitions of "S"	The reporting frameworks and standards considered each use similar but different definitions of around social concerns of corporate sustainability. Unlike the need of standard setters to be prescriptive on specific topics, it would be more appropriate for CDSB to adopt a broader definition, guiding report preparers without presupposing the specific issues relevant to each company. Presently, CDSB borrows from the IIRC for its definition of natural capital and could similarly do so for human and social capital. This would maintain the emphasis of the dependencies to the framework and would offer alignment with the complementary work of IIRC and, indeed, that of the Capitals Coalition and SASB, which employ similar definitions. In its next steps, though, CDSB needs also to be cognisant of whether the present definitions around human and social capital effectively capture the many different forms of social risk a company may face throughout its operations and supply chains.
Stakeholder engagement	The CDSB Framework presently emphasises the importance of stakeholder engagement as a means of understanding the relevance of an environmental matter to a company and similarly encourages companies to consider and report on the alignment of policies and strategies to stakeholder interests and the implication of identified risks to these groups. Stakeholder engagement has further been identified as a consideration in CDSB's work developing application guidance for water and biodiversity issues. In expanding the scope of the framework, stakeholder engagement would need to be more fully incorporated into the approach, whether as a principle or through specific requirement guidance. Importantly, engagement is a key means of keeping pace with the increasingly dynamic nature of materiality. As WEF have suggested regarding dynamic materiality, stakeholders commonly act as the triggers in making an issue, whether social or environmental, financially material for companies.[36] To be most useful then, careful attention needs to be afforded to the form and composition of stakeholder engagement.
Due diligence	There is growing momentum globally for mandatory requirements for companies to undertake human rights due diligence through their supply chains and report accordingly. The EU, for instance, is in the process of introducing legislation that would make human rights and ESG due diligence across supply chains an obligation for many companies operating in the EU, with non-compliance expected to result in fines.[37] What is more, due diligence and reporting legislation may set precedent for liability claims against companies, potentially reframing the issues for many companies that are understood as financially material. Currently, the CDSB Framework does not include provisions or guidance that is explicitly related to due diligence and is therefore a key area of development going forward in the expansion. As in the case of the EU's expected regulations, such improvements of reporting guidance on due diligence would also be relevant for environmental concerns as well as human rights matters.
Materiality and metrics	The CDSB Framework follows a materiality definition akin to that of the IFRS and is aligned with the mainstream reporting model, and there is no reason for this to change. The Framework, though, deems greenhouse gas (GHG) emissions to be material for all companies, requiring the disclosure of Scopes 1, 2 and, where relevant, 3 GHG emissions from those complying. With the expansion there needs to be consideration of what other information may similarly need to be reported by all completeness and comparability. For example, employee composition and salary metrics may benefit all users. The proposed revision of the CDSB Framework also offers the opportunity to consider whether there are any other environmental metrics that could also be required of all companies.

36 World Economic Forum (2020) Embracing the New Age of Materiality: Harnessing the Pace of Change in ESG. [PDF] Available from: http://www3.weforum.org/docs/WEF_Embracing_the_New_Age_of_Materiality_2020.pdf

37 European Parliament. European Parliament resolution of 10 March 2021 with recommendations to the Commission on corporate due diligence and corporate accountability. [PDF]. Available from: https://www.europarl.europa.eu/doceo/document/TA-9-2021-0073_EN.pdf

Area of development	Explanation
Dynamic materiality, uncertainty, and resilience	Uncertainty is of greater importance when considering financially material social issues for companies, and this consideration links to the notion of dynamic materiality. While far from areas of certainty, there is a greater degree of predictability to climate and environmental matters than social issues for companies. For this reason, reporting on social issues demands an even greater emphasis on corporate resilience than climate and environmental issues. Report users will gauge resilience importantly through the appropriateness, quality and adaptability of governance and management systems, and companies progress towards their targets. However, to best serve report preparers on such matters, the framework needs to be bolstered, resilience emphasised in relation to governance, risk, management and corporate outlook reporting requirements of the framework, and certain characteristics of resilience may be defined and explained.
Outlook for social issues	In relation to the points raised concerning uncertainty and dynamic materiality, social issues pose difficulties in reporting with much confidence on their potential future impact on a company's position, performance, and strategy. Unlike environmental issues where companies may turn to well-established models of future states to understand the impact on the business, such as those of the IPCC, social issues will require companies to take more of a lead in developing future scenarios to test their strategies against appropriate and plausible medium- and long-term developments. While encouraging scenario analysis for issues beyond climate may be difficult and time consuming for companies, it is important for strategies to be tested against comprehensive, considered, and interconnected scenarios to better understand resilience. This will benefit companies and investors alike. That said, it is clear from present experiences around climate that companies would benefit from further guidance in widening the scope of the analyses to consider social as well as other environmental issues. This could be a future area of work for CDSB and suitable partners.
From interconnected to systemic	Presently, CDSB encourages companies to adopt an interconnected approach to reporting on financially material environmental and climate issues in the mainstream report, ensuring that disclosures are appropriately linked and contextualised with other financial and non-financial disclosures in the report. This is very much in line with the highly beneficial integrated thinking approach offered by the International <IR> Framework. However, considering the complex interactions of environmental and social issues from which financially material risks and opportunities arise, a more systems thinking approach may be beneficial for companies for internal and external processes. This would represent a step beyond interconnected thinking, engaging more with multiple interconnections and feedback mechanisms, and is complementary to scenario analysis and other foresight techniques. Such an evolution could be made in developing the principles of reporting and encouraging certain techniques in the reporting requirements, such as around risks, dependencies and outlook, to ensure that is practical and useful for report preparers.

cdsb.net
@CDSBGlobal

Contact us to get involved
in CDSB's work **info@cdsb.net**

CDSB Secretariat
71 Queen Victoria Street,
London, EC4V 4AY
United Kingdom