Climate Disclosure Standards Board

Basis for conclusions

CDSB Framework for reporting environmental and social information – consultation draft

The consultation is open until 20 January 2022. To download the CDSB Framework draft, and for more information on how to respond, please visit www.cdsb.net/social

October 2021

Introduction

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. In these same years, we have witnessed an increasing number of requirements around the world for the disclosure of social metrics and information, such as in the UK and Australia in relation to 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 for disclosure, as in the case of the proposed Corporate Sustainability Reporting Directive and the Sustainable Finance Initiative in the EU.

For many companies and market actors, the events of 2020 and the Covid-19 pandemic have rightly underscored the importance of social issues to their organisations and emphasised the need for change across the economy. The crisis has revealed the widespread undervaluing of workers on whom our societies and prosperity depend, yet who remain subject to poor hourly rates, precarious contracts, or unsafe working conditions. It has led many companies to recognise the critical connection between the wellbeing of their employees and value chain relationships on the one hand and their commercial success on the other. The process of suddenly and wholly reimagining how we work in these conditions has necessitated a re-evaluation of what is truly essential for the functioning of companies around the world.

Such re-evaluation has also been occurring in relation to other aspects of social and human capital, and the experiences of stakeholder groups, across value chains. The extractive industry has long recognised its dependence on securing a 'social license to operate' from local communities, and the operational and financial costs of failing to build positive relationships. The importance of maintaining a social license to operate now extends to a range of other sectors, with impacts ranging from financial, operational, reputational and legal where this is not done. Indeed, shifting consumer and regulator expectations on various social issues, such as gender and racial equality, pose risks to organisations. And the growth of the digital economy has ushered in an era in which failing to protect consumer privacy is a material issue for increasing number of companies company across the economy.

This wide recognition of various human and social capital dependencies 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.1 The financial materiality of social issues and the risks and opportunities they pose have never been higher up on the agenda for business. 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.[2]

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 have 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 allocation and leaves companies with significant blind spots regarding their exposure to risks, unrealised opportunities, and sub- optimal value creation.

In parallel, our understanding of 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 impacts over time.

To help address this deficit, and build on recent developments, CDSB has determined that there is an urgent need to expand its Reporting Framework to include social issues, in order to ensure it remains relevant, and is complete and

[1] 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

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

fit-for-purpose in today's context. CDSB is therefore releasing the revised CDSB Reporting Framework for public consultation.

This document explains the basis for the conclusions that CDSB has reached in developing revisions to the Reporting Framework for public consultation to the extent that those conclusions may not be evident from the consultation draft. In particular, it focuses on the conclusions CDSB has reached in response to the following questions:

1. Why and how should social information be brought into mainstream financial reporting?
2. How should social information, social impacts, and sources of social impact be defined for reporting?
3. What is viewed as material when it comes to social information?
4. How do reporting boundaries apply for social information?
5. How can stakeholder engagement be brought into the Framework?
6. What is the interconnectivity of environmental, social and financial information that it is important for investors to know about?

The proposed revisions are consistent with CDSB's earlier discussion paper[3] and anchored in:

- The accepted global standards regarding the responsibilities of business for impacts on people: namely the UN Guiding Principles on Business and Human Rights and relevant chapters of the OECD Guidelines for Multinational Enterprises. These standards, including the requirement for human rights due diligence, are today reflected globally in national and intergovernmental policies and regulations, industry standards and guidelines, and investor commitments and strategies;
- The capitals lens, specifically human and social capital dependencies and concepts of value creation and destruction that extend beyond financial value alone; and
- The lens of sustainable development whereby companies can contribute to the social dimensions of the SDGs both (a) by the proactive approaches they take to tackling systemic human rights risks, and (b) via the innovation of beneficial products and services that help meet the needs of underserved populations or provide some other social benefit.[4]

Part 1 describes the core concepts that underpin the revisions to the CDSB Framework, while Part 2 outlines all changes, with an overarching explanation for additions made to each Principle and Requirement.

[3] Climate Disclosure Standards Board (CDSB) (2021) Corporate reporting on social issues: CDSB position paper. [Online] Available from: https://www.cdsb.net/sites/default/files/25279_cdsb_corporate-reporting-on-social-matters_final_0.pdf
[4] The United Nations Global Compact and Global Reporting Initiative (2018) Integrating the Sustainable Development Goals into Corporate Reporting: A Practical Guide. [Online]. Available from: https://www.unglobalcompact.org/library/5628

Part 1

Core Concepts

A number of core concepts underpin the logic of the revisions made to the text of the CDSB Reporting Framework. These have provided the basis for integrating social information in a manner that retains the Framework's focus on material business risks and opportunities while also being consistent with international standards of conduct regarding companies' social performance and reflecting the particularities of how social impacts can arise in the context of business operations and value chains.

Types of Social Information

Central to these core concepts are the distinct scopes of social information and how they relate to the social information that would be reported under the CDSB Reporting Framework:

1. Social information is the broadest category of information and relates to any form of effect, positive or negative, on the welfare of people, whether as individuals, groups or as society as a whole. This is relevant to an organisation's social and human capital impacts and dependencies. While people may be grouped in various ways and consider themselves to belong to multiple 'groups' in a society, in order to clarify the kinds of positive and negative social impacts that can result in practice from business activities, the revisions reflect four key groups of people, in line with emerging practice:

- The organisation's workforce (employees and contract workers);
- The workforce (employees and contract workers) of entities in the organisation's upstream and downstream value chain who have a role in the development or distribution of the company's products or services.
- Community members that can be affected by the organisation's own operational sites or infrastructure or that of entities in the organisation's value chain; and
- Consumers, end users or others impacted by use of the organisation's products or services

2. Relevant social information focuses in on those impacts on people, whether positive or negative, that meet a certain level of significance and are connected to an organisation's operations, products or services whether through its own activities or through business relationships across its value chain. With regard to negative impacts, the key threshold for 'relevance' of social information is determined by the international standards regarding the responsibility of business for impacts on people. It is met when an impact harms someone's human rights, meaning that it undermines their basic dignity as a human being.[5]

Human rights are the basic rights and freedoms, including labour rights, that belong to every person by virtue of being a human being. They cover the full array of ways in which people can be impacted, including, for example, in relation to non-discrimination, health and safety, fair pay, freedom of association and collective bargaining, access to clean water and adequate housing, health and security of the person, freedom of expression, privacy, freedom from child labour and forced labour, among others.[6]

With regard to positive impacts, social information is relevant for organisations and their investors where it reflects significant positive impacts on people, often associated with the organisation's development of beneficial products or services. This could entail where these new and additional beneficial products and services have the potential to change current business models towards more sustainable ones and/or challenge commonly held paradigms.[7]

3. Material social information is the subset of relevant social information that also reflects significant impacts – positive or negative – on the organisation's financial condition and operational results and its ability to execute its strategy, and where the omission, misstatement or obscuration of this information would influence the decisions of users of the reporting.

[5] See: Office of the High Commissioner for Human Rights (2011) UN Guiding Principles on Business and Human Rights. [Online]. Available from: https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf; and OECD (2011) OECD Guidelines for Multinational Enterprises: Chapter IV, Human Rights. [Online]. Available from: http://mneguidelines.oecd.org/guidelines/

[6] For more on human rights and the ways in which they can be affected by business, see: Shift and Mazars (2015) UN Guiding Principles Reporting Framework. [Online]. Available from: https://www.ungpreporting.org/resources/how-businesses-impact-human-rights/

[7] The United Nations Global Compact and Global Reporting Initiative (2018) Integrating the Sustainable Development Goals into Corporate Reporting: A Practical Guide. [Online] Available from: https://www.unglobalcompact.org/library/5628

For most if not all organisations, material social information is likely to include information related to human capital impacts or dependencies, for example with regard to recruitment/retention, pay and pay gaps, training and development and/or health and safety and wellbeing.

Additionally, in the case of negative impacts on people, it is typically the most severe impacts on people's human rights that will lead to significant risks for the business, whether operational, legal, reputational or solely financial. It is the process of human rights due diligence that enables management to determine the most severe risks to people. Examples, for illustrative purposes, could be where:

- Persistent overtime demands impact employees' mental health, productivity and staff retention which in turn impacts product quality and future sales;
- Forced labour in an organisation's supply chain leads to restrictions on imports of goods into a territory that in turn impact the organisation's ability to ensure continued supply; or
- An organisation's record of impacting local communities' health affects future investment or exploration licenses.

In the case of positive impacts on people, social information is material where there are significant opportunities for the organisation, which may result either from the development of beneficial products or services or from reputational and competitive advantages where the organisation can demonstrate success in reducing negative social impacts.

4. Material social information by default: Living Wages

The existing CDSB Reporting Framework reflects that GHG emissions shall be treated as material in all cases as a contributor to climate change. Alongside climate change, growing inequality is today increasingly seen as a systems-level risk for business, given the loss of trust in key institutions and sources of information, democracy and the rule of law, leading to the erosion of social stability and cohesion.[8]

While there are various facets to inequality, a particularly central contributor, which frequently affects other forms of inequality and is directly tied to business practices is the payment of living wages. The revised Framework therefore reflects that disclosure regarding the provision of, or progress towards, living wages for a company's workforce (employees and contractors) should be treated as material and reported in all cases. This information can be provided by all organisations – irrespective of their size, sector, operational context, ownership and structure – using generally-agreed methodologies regarding the calculation of wages, and one of a number of living wage benchmarks that meet established minimum criteria.[9] It also enables organisations to provide information of value to investors in a way that is sufficiently consistent so as to enable a level of comparability between similar organisations and across reporting periods, as expected by Principle 4.

Social impacts and sources of social impact

Social impacts and the sources of social impact are presented in the exposure draft as being particularly relevant to an understanding of 'relevant social information.' The aim is to provide a sufficiently simple representation of what these impacts can be, and how they can arise, that aligns with the international standards of conduct. This is a precursor to the identification of 'material social information'.

1. Social impacts are limits on or changes to the ability of people to realise their human rights, where these limits or changes are connected to an organisation's operations, products or services. These social impacts can be relevant for the four key groups of people outlined above and may be either positive or negative.

With regard to negative impacts, examples include:

- For the organisation's workforce: unsafe workplace conditions; discrimination in pay, promotion or other regards; excessively low wage levels; or lack of freedom of association;

[8] See, for example, the Business Commission to Tackle Inequality: 'Inequality is now one of the most pressing challenges facing our societies today, on a par with the climate emergency, and it must be addressed with the same level of urgency.' Available from: https://tacklinginequality.org/

[9] See, for example: the IDH recognised Living Wage Benchmarks, available from: https://www.idhsustainabletrade.com/benchmarks/; Living Wage for US, available from: https://livingwageforus.org/; and the UK Living Wage Calculator, available from: https://www.livingwage.org.uk/what-real-living-wage

- For the workforce of entities in the value chain: forced or excessive overtime; inadequate wages; precarious work; unsafe working conditions, child or forced labour; or lack of freedom of association;
- For community members: significant harm to livelihoods; or the pollution of air, land and water affecting health and livelihoods; and
- For consumers, end users or others impacted by use of the organisation's products or services: health impacts from products; or the exclusion from certain technological applications of people with disabilities.

2. Sources of social impact are the activities of and outputs from the organisation that actually or potentially cause or contribute to social impacts. These activities and outputs are varied, and differ, depending on each organisation. They could include workforce skills development, worksite safety procedures, recruitment procedures, pay processes, approaches to social dialogue, purchasing practices, franchise arrangements, land use practices, waste management, marketing and product design, market research and user testing.

Stakeholder engagement and inter-connectivity

Stakeholder Engagement

The revised draft places emphasis on stakeholder engagement, in particular in gaining insight into actual or potential impacts that would constitute relevant information and may be material for the organisation, and in strengthening the organisation's policies, governance, and other relevant processes.

A central feature of the international standards of conduct related to social performance is that a company's approach to identifying and addressing social impacts should wherever possible be informed by engagement with affected stakeholders or their legitimate representatives, as well as with subject-matter experts. It is this engagement that helps strengthen an organisation's approach and helps ensure that it has identified the full range of actual and potential social impacts, including those that could rise to the level of materiality.

Affected stakeholders may be from any of the four key stakeholder groups outlined above: the organisation's workforce (employees and contract workers); the workforce (employees and contract workers) of entities in its value chain; community members; and consumers, end users, or others impacted by use of the organisation's products or services. Where the organisation is unable to draw directly on the perspectives of affected stakeholders or their legitimate representatives (e.g., trade unions in the case of workers), it may engage with credible subject matter experts – where possible those with good insight into the likely or typical perspectives of the affected stakeholders.

For most if not all organisations, stakeholder engagement is already happening to a certain degree – primarily with the organisation's workforce as well as consumers, end users or others impacted by use of the organisation's products or services. This includes employee surveys, customer complaints mechanisms, community 'town halls', and human rights impact assessments. Additionally, there are other tools and procedures that can support effective engagement with other stakeholder groups, in particular workers at entities in the value chain, and community members.

Inter-connectivity between environmental and social information

The revised draft seeks to elicit information on areas of inter-connectivity between social and environmental information that will be of interest to investors and how this relates to wider business information.

Exploring inter-connections between environmental and social risks and opportunities, impacts, performance and information is a growing area of attention, as evidenced by a growing number of laws that seek to address both areas together, including the upcoming EU Sustainable Corporate Governance Initiative.[10] Organisations are increasingly expected to understand and explain how environmental and social information are inter-connected, where this inter-connectivity is material.

[10] European Commission (2021) Sustainable Corporate Governance. [Online]. Available from: https://ec.europa.eu/info/law/better- regulation/have-your-say/initiatives/12548-Sustainable-corporate-governance_en

Part 2

Revisions to Principles and Requirements

This section explains the rationale for revisions to the seven principles and twelve requirements of the CDSB Framework. At a high-level, the proposed social revisions:

- Integrate the key concepts presented in Part One;
- Include:
  I. References to relevant social international standards, frameworks, initiatives and resources that organisations can turn to, to inform their reporting; and
  II. Minor editorial changes (e.g., the inclusion of the word "social" after the word "environmental"),
- Reflect attempts to update the framework to reflect current good practices in both environmental and social reporting; and
- Retain the structure of the CDSB Framework, reflecting that the purpose and internal coherence of each of the principles and requirements for environmental disclosures also works for social.

For each principle and requirement, a short overview of the aim of the revisions is provided, followed – where necessary – by more detailed explanation for specific line edits. These explanations are intended to support stakeholders providing feedback, to interrogate and comment on the underlying logic for the proposed revisions.

Overview of revisions - Guiding principles

P1 Relevance and Materiality

In order to focus reporting on information that is decision-useful for investors, the proposed revisions to Principle 1 provide clear definitions of what is meant by relevant social information and material social information. The proposed revisions also sign-post to internationally agreed principles and standards that investors and other stakeholders now expect management to use when determining material social information.

The revisions also mirror the existing framework text on environment by offering illustrative examples of the ways in which outcomes and impacts might manifest as effects on the organisation's ability to operate its business model and execute its strategy over the short, medium and long term. A connected edit is a proposed addition highlighting that, for certain environment and social issues, disclosing organisation should consider the dynamic nature of materiality.

By way of further guidance to stakeholders providing input to the proposed revisions, the following table indicates where revisions connect to the core concepts outlined in Part One above and explain the logic underpinning other revisions where the logic is not self-explanatory.

Line	Explanation
20-21	Reflects the core concept of Living Wage as Material by Default, explained in Part One.
31-32	Consistent with the UN Guiding Principles on Business and Human Rights, “connected” denotes that an organisation can cause, contribute to, or be linked through its business relationships to adverse human rights impacts. Moreover, material risks can result from any of these types of involvement.
40-42	Reflects the core concept of Living Wage as Material by Default, explained in Part One.
56-57	The introduction of “environmental and human rights due diligence” brings the framework in alignment with international corporate responsibility standards and recent regulatory developments.
65-66	Reflects the core concept of Stakeholder Engagement, explained in Part One.
69-76	Reflects core concept of Relevant Social Information, explained in Part One.
74	“Development” is intended to capture the consensus reflected in the UN Global Compact and Global Reporting Initiative guidance, Business Reporting on the SDGs, that “information about positive impact should be more than a relabelling of existing efforts that are demonstrably driving positive change. Rather, organisations should focus on new and additional beneficial products and services, and related strategies that have the potential to challenge commonly held paradigms and change current business models towards more sustainable ones”.
123-124	Reflects the core concept of Living Wage as Material by Default, explained in Part One.
148-153	This reflects that Human Rights Due Diligence as set out in the UN Guiding Principles provides management with a process to determine the most severe actual and potential adverse impacts on the organisation’s workforce, workers in the value chain, communities and consumers, which are in turn likely to be, or to become, among the greatest social risks to the organisation.
175	“Scale” is more appropriate for estimates of certain qualitative social issues and can encompass “amount”. The edit is proposed because management may determine that they need to make estimates for social events that involve qualitative assessments, such as whether workers working overtime will lead to illness or injury, or whether a safety issue related to the organisation’s infrastructure reflects a maintenance issue or a near or longer-term threat to the safety of surrounding communities.

P2 Faithful representation

The existing text of Principle 2 is, in large part, appropriate for reporting on social information. Only three substantive revisions are being proposed and are explained in the table below. These are intended to help ensure that faithful representation is not read to mean that management needs to rely on quantitative information solely: estimates on the social side can also be based on qualitative information.

Line	Explanation
211-212	Social information can commonly rely on data about the perspectives and experiences of stakeholders, for example via surveys, focus groups and interviews involving suppliers, business partners, employees, communities and consumers. These revisions reflect that where this is the case, companies should use credible sampling techniques so as not to over- or under-represent the perspectives of certain groups in their reporting.
222-223	Reflects the core concept of Stakeholder Engagement, explained in Part One.

P3 Connectivity of information

The aim of revisions to Principle 3 is to introduce the concept of interconnectivity between environmental and social information, explained in Part One. The following table indicates where these revisions are and explains the logic underpinning one other revision.

Line	Explanation
234-252	Reflects the core concept of Interconnectivity between environmental and social information, explained in Part One.
262-2263	The proposed text is introduced to replace the quotes in the original text (provided below for reference), in order to: a) use content applicable across environment and social; and b) remove the reference to 'lower costs, smooth cash flow' which may not always be appropriate in the short-term on the social side. For example, raising the pay of low-skilled workers closer to the living wage more may increase costs and reduce cash flow. Quote in existing requirement text: "It tells investors "the story of how managing environmental issues helps the organisation to increase sales, lower costs, smooth cash flow, boost brand value and strengthen risk management", and when it shows the "linkages between corporate environmental strategies, financial performance and environmental results"."

P4 Consistency and comparability

The existing text of Principle 4 is, appropriate for reporting on social information. The only suggested change is reflected in the table below.

Line	Explanation
284-286	This change captures the possibility that a KPI may be revised to improve it given the considerable learning now underway with regard to the measurement and evaluation of social performance, and to a degree, environmental performance.

P5 Clear and understandable

The existing text of Principle 5 is appropriate for reporting on social information. Only minor edits to include the term "social".

P6 Verifiability

The existing text of Principle 4 is, appropriate for reporting on social information. The only suggested change is reflected in the table below.

Line	Explanation
313-315	This clarification is to help ensure that verifiability does not impede upon management's ability to rely on qualitative information, which is particularly relevant for social issues, but can also play a role when reporting environmental issues.

P7 Forward-looking

The existing text of Principle 7 is, appropriate for reporting on social information. Only minor edits to include the term "social".

Overview of revisions - Reporting requirements

REQ-01 Governance

The proposed revisions to REQ-01 integrate recent developments regarding governance of responsible and sustainable business practices. The central theme is the growth of investor interest in whether boards have adequate expertise and knowledge to effectively oversee the organisation's management of its environmental and social risks and opportunities.

By way of further guidance to stakeholders providing input to the proposed revisions, the following table also indicates where revisions connect to the core concepts outlined in Part One above and explains the logic underpinning other revisions where the logic is not self-explanatory.

Line	Explanation
350	"Strategy" has been changed to "strategies" to allow that companies may not have, nor perhaps should they have, a singular strategy. On the one hand, an organisation may have distinct environmental and social strategies. But even within one area there may be multiple strategies, e.g., on water use reduction and on waste management, or on workplace health and safety and on consumer data privacy.
363-364	Reflects that an organisation's business model and strategy can exacerbate environmental and social risks, which is now increasingly widely recognised, including in the EU Corporate Sustainability Reporting Directive. Examples include business models that depend on extraction of fossil fuels; fast-fashion business models that push prices and therefore (already low) wages down, and generate high levels of textiles waste; or business models that depend on the collection and storage of personal data, creating risks to privacy and other rights.
365-368	Speaks directly to the board being informed and knowledgeable about environment and social risks and opportunities, and reflects the core concept of Stakeholder Engagement, explained in Part One.

REQ-02 Policies, strategies and targets

A key aim to the revisions to REQ-02 is to introduce equivalent examples for social to those already provided about the detail of environmental policies, strategies and targets. As with environment, this is done to guide organisations to disclose information about the organisation's management of social risks and opportunities that will be relevant to investors.

By way of further guidance to stakeholders providing input to the proposed revisions, the following table also indicates where revisions connect to the core concepts outlined in Part One above and explains the logic underpinning other revisions where the logic is not self-explanatory.

Line	Explanation
394	"Individuals, relationships, and networks" refer to the equivalent human and social capital dependencies to the natural capital dependencies of "renewable and non-renewable environmental resources and processes".
396-399	Reflects the core concept of Interconnectivity between environmental and social information, explained in Part One.
410-412	This revision is proposed so that the framework helps reporting organisations in focusing on management of both negative and positive social impacts, and related business risks and opportunities that are material. Additionally: • The language of "prevention, mitigation, and remediation of particular negative human rights impacts" seeks to make clear that, to be meaningful to investors, policies and strategies should address the specific impacts and risks those policies and strategies are intended to address, which may include, for example: workplace health and safety; wages; overtime; diversity and inclusion; freedom of association; forced labour; land rights or privacy. • The language of "human capital" is included to reflect that – whether aiming to advance positive social impacts or mitigate negative impacts – it may be material for an organisation to report on its policies and strategies focused on, for example, workforce training, skills development, mentoring programs.

Line	Explanation
417-420	Reflects the core concept of Stakeholder Engagement, explained in Part One.
424	The introduction of "informed by" to replace "supported through participation in, or endorsement of" is intended to reflect that: a) some of the initiatives listed are not designed for organisation participation or endorsement; and b) some companies invest significantly in aligning their policies, processes and strategies to sustainability initiatives, regulatory schemes, voluntary reporting without participating in, or endorsing them.
434-436	This reflects that: a) there is no offsetting for social impacts, as established in the UN Guiding Principles (Commentary to GP11). By way of illustration: an organisation cannot offset endemic gender discrimination in its hiring and promotion practices by making philanthropic contributions to NGOs working on women's empowerment, and an organisation cannot offset negative health outcomes for communities caused by a supplier contaminating sources of drinking water via employee volunteering schemes to build wells. In addition, for environment, it is important to make it clearer that the framework is not supporting wholescale offsetting.
451-457	Target setting for social issues should be focused on positive outcomes for people that an organisation seeks to achieve via its social strategies and policies. This is important to clarify, to deter the practice of companies setting social targets in relation to resources invested (inputs) or activities such as training, drafting new policies or processes, or conducting assessments. Such targets do not inform investors and other stakeholders as to whether the organisation is, in fact, successfully managing social impacts and related business risks and opportunities. As illustrated in the first sub-bullet, companies can measure outcomes for people directly. However, the second sub-bullet reflects that, taking action to drive systems-level change towards improving outcomes for people, is a legitimate risk management strategy.
466-467	Reflects the core concept of Stakeholder Engagement, explained in Part One.
478-479	Reflects the core concept of Stakeholder Engagement, explained in Part One.
482-483	Reflects that for social issues (and possibly some environmental issues), the lack of universal, internationally recognised performance metrics and indicators that make sense to use for all social issues, in all contexts and by all industries means that organisations may sometimes legitimately use measures that they have developed themselves. This simply indicates that when organisations use measures that they have developed – as against recognised indicators – the underlying logic and approach to measuring an indicator should be explained.

REQ-03 Risks and opportunities

The first aim of proposed revisions to REQ-03 is to integrate illustrative examples of social risks and opportunities that are commensurate with those already provided for environment, and using the same broad categories already established by the framework. Provision of such examples is deemed especially important to support management – recognising that some companies may not historically have reported on social issues – in thinking clearly and holistically about the organisation's business risks and opportunities.

The second aim is to update the content and sequence of types of information listed so as not to exclude information that is useful for investors, and to offer clearer guidance to reporting organisations. Within this, a particularly significant addition is the aspect of organisations disclosing the process by which they determine environmental and social risks and opportunities. This is one avenue to address growing investor interest in whether information reported reflects the dynamic nature of material business risks and opportunities

By way of further guidance to stakeholders, the following table also indicates where revisions connect to the core concepts outlined in Part One above and explains the logic underpinning revisions where the logic is not self-explanatory.

Line	Explanation
490	The term "business" is added to be clear that this requirement concerns risks to the business, and not "risks to people" which is a widely accepted concept used by investors, companies and other stakeholders focused on social issues.
521-527	The proposed revisions reflect the wide recognition of "social license" as an especially acute version of reputational risks and opportunities given that it can involve widespread challenges to the legitimacy of an organisation to operate in a certain location or to pursue its current business model or strategy. The sub-bullets introduce examples of the types of societal expectation that can lead to reputational and social license risks.
529	One aspect of changes to this section is in the re-ordering of existing bullet to create a clearer logic to what companies should disclose, namely: first, what the risks and opportunities are, and details about these; second, information about whether, and how, the process to determine the organisation's risks and opportunities has accounted for the organisation's own environmental and social impacts; and third, any additional sources of environmental and social risks and opportunities.
541-543	Reflects the core concept of Interconnectivity between environmental and social information, explained in Part One.
544-555	The proposed changes introduce the idea of organisations disclosing whether and how they have considered the relevance of what is disclosed under REQ-04: Sources of Social Impact, within REQ-03. Within this (lines 550-552), "...the introduction of new processes, practices or initiatives aimed at tackling systemic risks to people or the environment" reflects that there can be business benefits (e.g., financial, operational, reputational) from taking actions to address negative environmental and social impacts that may be different from introducing beneficial products or services. For example, when raising wages to the living wage leads to increased productivity and reduced turnover; or when rooting out and remedying child labour in supply chains helps to secure new retail customers for an organisation's products.
556-568	"Explains any additional causes and sources..." is distinguished from the above focus on dynamic materiality to reflect that business risks and opporunities can arise due to forces that an organisation may in no way contribute to.

REQ-04 Sources of impact

The primary aim of proposed revisions to REQ-04 is to signal the different ways in which organisations might be involved in social impacts, so as to mirror the guidance already provided for environmental issues. Central to the additions are two concepts. First, that positive or negative social impacts that may become material for organisations can occur for different groups of people, commonly understood as:

- The organisation's workforce (employees and contract workers);
- The workforce (employees and contract workers) of entities in the organisation's upstream and downstream value chain who have a role in the development or distribution of the organisation's products or services;
- Community members that can be affected by the organisation's own operational sites or infrastructure or that of entities in the organisation's value chain; and

- Consumers, end users or others impacted by use of the organisation's products or services.

Second, that organisations can cause social impacts, contribute to them (for example, by incentivising third parties to operate in ways that positively or negatively impact people), or can be linked to social impacts across the organisation's value chain even when the organisation does not contribute to those impacts.

By way of further guidance to stakeholders, the following table also indicates where revisions connect to the core concepts outlined in Part One above and explains the logic underpinning revisions where the logic is not self-explanatory.

Line	Explanation
590	To align to the UN Guiding Principles on Business and Human Rights which recognises that companies can, acting alone, cause social impacts. "Cause" works equally well for environment and that influence is captured within the meaning of "contribute to".
624-627	Reflects the core concept of Interconnectivity between environmental and social information, explained in Part One.
628-631	Reflects the core concept of Stakeholder Engagement, explained in Part One, and introduces that there are credible social science methods that should be used by companies when seeking to measure and quantify qualitative social information. This is important to balance out the widely held view that social is too soft or hard to measure. That said, where sampling to understand impacts on only a portion of affected populations occurs, organisations should be prepared to demonstrate what measure they have in place to hear from the most at-risk groups.
652-655	Reflects the core concept of Living Wage as Material by Default, explained in Part One
661-663	Reflects the core concept of Stakeholder Engagement, explained in Part One.
688-690	Reflects that mitigations, in the case of social, are very applied. Risks can be generalised, but actual impacts are particular to individuals and an organisation's mitigation or remedy therefore has to apply to those actual people. Where organisations are reporting about actual impacts on specific people, it is not helpful to guide an organisation to make statements about these harms without tying it to actions taken or planned by the organisation to address the harm. Investors will be interested in the latter, not just the former. By way of illustration, it makes little sense for an organisation to state 'we found 50 children in our supply factory' or 'we identified 75 cases of sexual harassment' or '5 people died on our site' without immediately indicating what mitigation and remedy measures have been applied.

REQ-05 Performance and comparative analysis

The existing text of REQ-05 is broadly appropriate for reporting on social information. The only changes suggested are reflected and explained in the table below.

Line	Explanation
723-725	Reflects that, in the context of social information, significant changes or unexpected results tend to arise from a change in operating context (e.g., a government has passed a law that constrains worker rights, a country has undergone a coup, local conflict has erupted), business relationships (e.g., new suppliers have been introduced that lack a strong track record on respecting worker right; a joint venture has been launched with the state-owned enterprise in a country known for repressing of minorities) or activities (e.g., an organisation has expanded into a new area of business that brings with it a number of social impacts).

REQ-06 Outlook

The existing text of REQ-07 is broadly appropriate for reporting on social information. The only substantive, proposed revisions are explained in the table below.

Line	Explanation
748-751	This bullet point has been extended to signal to organisations that disclosing the reasons for the time horizons considered as part of future outlook, including that these might be established to align to international initiatives, such as 2030 Sustainable Development Goals.
752-754	Reflects an emphasis on the explanation of the processes used by management to evaluate the organisation's future performance.

REQ-07 Organisational boundary

The existing text of REQ-07 is broadly appropriate for reporting on social information. The revised draft proposes no change to the reporting boundary for which information should be prepared, which remains the boundary of the organisation or group for which the mainstream report is prepared. The revised draft simply clarifies that this includes information regarding both environmental and social impacts that occur beyond the boundary which are material to entities within the boundary.

By way of further guidance to stakeholders, the following table explains the logic underpinning revisions where the logic is not self-explanatory

Line	Explanation
778-783	Reflects the idea, articulated in REQ-04 that an organisation can be involved in social impacts that in turn lead to busines risks and opportunities, even where it has not caused those impacts.
789-796	Reflects that an organisation may be required to report on social and environmental issues regardless of whether management deem the to be material. For example, some jurisdictions have introduced reporting relating to forced labour/modern slavery.

REQ-08 Reporting Policies

The existing text of REQ-08 is broadly appropriate for reporting on social information. The only changes suggested are reflected and explained in the table below.

Line	Explanation
816	Reflects earlier changes that recognise that social and environmental information may be qualitative.
818-820	Reflects the core concept of Stakeholder Engagement, explained in Part One, and the importance of effective stakeholder engagement when it comes to describing the approach used for collecting source data. This helps convey to investors the accuracy of social information conveyed, and to a degree, environmental information.

REQ-09 Reporting period

The existing text of REQ-09 is appropriate for reporting on social information.

REQ-10 Restatements

The existing text of REQ-10 is broadly appropriate for reporting on social information. The only change suggested are explained in the table below.

Line	Explanation
850-852	Reflects that there are times where information received relates to a prior year's reporting, and in this case, a restatement might be required. This sentence includes three examples of how companies can receive new information that may arise to the level of materiality that it would entail a restatement.

REQ-11 Conformance

The existing text of REQ-09 is appropriate for reporting on social information.

REQ-12 Assurance

The existing text of REQ-12 is broadly appropriate for reporting on social information.

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