

# PRI RESPONSE

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## ISSB CONSULTATION ON AGENDA PRIORITIES

1 September 2023

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To inform this response, the following investor group has been consulted: PRI Corporate Reporting Reference Group (CRRG) and PRI Global Policy Reference Group (GPRG). This consultation is not an endorsement or acknowledgement of the views expressed in this response.

### PRI Association

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**United Nations**  
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## ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the IFRS Foundation International Sustainability Standards Board (ISSB) Consultation on Agenda Priorities, which will inform its next two-year work plan.

## ABOUT THIS CONSULTATION

The ISSB aims to deliver a global baseline of sustainability-related financial disclosure standards that meet the information needs of an entity's existing and potential investors, creditors and other lenders, building on established sustainability reporting initiatives.

On 4 May 2023 the ISSB published its [Consultation on Agenda Priorities](#) to gather views on its next two-year work plan commencing in 2024, and in particular the:

- strategic direction and balance of its activities;
- criteria to assess which sustainability-related matters to prioritise and add to the work plan; and
- proposed list of research and standard-setting projects that could be added to the work plan, including tentative projects on: (i) biodiversity, ecosystems and ecosystem services; (ii) human capital; (iii) human rights; and (iv) integration in reporting.

The ISSB has described work to support the implementation of the first set of ISSB Standards, research targeted enhancements to the Standards and enhance the SASB Standards as “foundational work”. This work is under way or will begin before the consultation is completed.

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## SUMMARY OF PRI'S POSITION

The PRI strongly welcomes the ISSB's proposal to further develop and support the implementation of existing standards and engage in new sustainability standard-setting projects, over its next two-year work plan and beyond.

Further, we support the ISSB's intention to determine this work plan by considering the information needs of investors – the primary users of sustainability-related financial reporting – and the extent to which these needs are currently being met. This will help to strengthen and expand the global baseline of sustainability-related financial disclosures, and thereby provide investors with decision-useful information at both the issue-agnostic and issue-specific levels.

Our response to this consultation does not constitute PRI's view on the importance or urgency of each sustainability topic or matter. Reporting on biodiversity and human rights (including human capital) and integration in reporting are highly important to our signatories, so it is important that progress is made in all of these areas over the coming years. However, recognising that the ISSB has limited capacity available, we are proposing a prioritisation of projects based on:

- an assessment of the anticipated progress of standardised reporting on these topics and matters without the ISSB research projects, and the resulting implications for our signatories' data needs; and
- the maturity of sustainability reporting practice on these topics and matters – in terms of agreement on concepts and indicators, availability of data and market uptake – and the resulting market readiness for a formalised standard.

We recognise that the ISSB's foundational work and proposed projects will involve significant resources and expertise. Given the importance of this work to our signatories, the PRI stands ready to support the ISSB as it identifies what investors need from corporate sustainability reporting, further develops its work program, and works to build capacity.

## KEY RECOMMENDATIONS

The PRI's key recommendations to the ISSB are:

- Prioritise the ISSB's activities in the following order, from highest to lowest priority:
  - **Priority #1** – Supporting the implementation of ISSB Standards IFRS S1 and IFRS S2.
  - **Priority #2** (with equal weighting) – Researching targeted enhancements to the ISSB Standards, beginning new research and standard-setting projects, enhancing the international applicability of the SASB Standards and maintaining the SASB Standards.
  - **Priority #3** – Advancing the industry-based research and standard-setting work inherited from the SASB.
- Assuming that potential research and standard-setting projects must be prioritised, the ISSB should:
  - Prioritise planned work to incorporate reporting requirements on biodiversity, water and deforestation-related risks and opportunities at the nexus of climate and nature, as an update to IFRS S2, drawing on the research and recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD) and UK Transition Plan Taskforce (TPT).

- Prioritise the project on human rights during its next two-year work plan (2024-2025), with a view to develop a general human rights and social issues reporting standard. Note, this project should also incorporate the proposed project on human capital.
- Conduct the project on integration in reporting as a secondary project, implemented in two phases over a four-year period: an initial scoping phase in this workplan, followed by a more detailed phase of research in the ISSB's following workplan.
- Publicly commit to producing a standard on biodiversity, ecosystems and ecosystem services (BEES) reporting by the end of the following two-year work plan (2026-2027), further building on IFRS S2 and the recommendations of the TNFD, and:
  - Strongly encourage companies to adopt the TNFD v1.0 Disclosure Framework, the GRI 304 standard of the Global Reporting Initiative (GRI), and other voluntary frameworks in preparation (including during its next two-year work plan 2024-2025), and in recognition of the Kunming-Montreal Global Biodiversity Framework targets and expectations (see Question 3 for further details).
- On the Biodiversity, Ecosystems and Ecosystem Services (BEES) project:
  - Place particular emphasis on the sub-topics “land-use and land-use change” and “water”, followed by “resource exploitation”.
  - Ensure a common body of reporting information across sectors and geographies, and additional reporting tailored to different sectors and geographies.
  - Leverage the work of the TNFD, the Global Reporting Initiative (GRI), the Partnership for Biodiversity Accounting Financial (PBAF), and the European Commission's Corporate Sustainability Reporting Directive (CSRD) and EU Align project.
- On the Human Rights project:
  - Prioritise the development of a sector-agnostic corporate disclosure standard for human rights and social issues, which covers a broad set of issues (including human capital) applicable across sectors, geographies and business models.
  - Ensure the eventual human rights and social issues standard captures information needed by investors on an entity's inherent human rights risk, the role of the board and leadership, quality of due diligence and positive human rights outcomes to which companies have contributed.
  - Build the human rights and social issues standard on IFRS S1, the UNGPs and the OECD Guidelines, drawing from and with a view of interoperability with existing reporting standards such as the European Sustainability Reporting Standards (ESRS) and GRI Standards.
  - Human capital should be incorporated into the broader human rights project. On human capital specifically, the ISSB should:
    - Prioritise the sub-topics “worker wellbeing” and “diversity, equity and inclusion”, and clarify the sub-topics “workforce investment”, “alternative workforce” and “labour conditions in the value chain”.
    - Develop sector-agnostic disclosure requirements for human capital, accounting for risks associated with the transition to a low-carbon economy, technological advances and demographic changes.
    - Leverage relevant materials of the GRI, International Labour Organization (ILO) and Workforce Disclosure Initiative (WDI).

- On the Integration in Reporting project:
  - Ensure the output provides entities with guidance on calculating and reporting in the management accounts, the expected financial implications of sustainability-related risks and opportunities – whether through effects on investment plans, sources of funding or other specific line items that appear in the financial statements.
  - Undertake this work in collaboration with the IASB to ensure consistency in approach between ISSB and IASB Standards, given the potential implications for accounting requirements and jurisdictional adoption of this approach. In particular, request voluntary input from the IASB in the initial phase of the project, followed by a joint project in the second phase.
  - Leverage elements of the IASB's [Exposure Draft Management Commentary](#), the [Integrated Reporting Framework](#) and ongoing IASB work on the effects of climate-related matters on financial statements.

## DETAILED RESPONSE

### 1. STRATEGIC DIRECTION AND BALANCE OF THE ISSB'S ACTIVITIES

*Paragraphs 18-22 and Table 1 within the consultation document provide an overview of activities within the scope of the ISSB's work.*

*Note, the consultation clarifies that the activity "researching targeted enhancements to the ISSB Standards" could involve providing guidance on the disclosure of "climate-adjacent" risks and opportunities related to nature (e.g. deforestation and water) and the "just transition" to a lower-carbon economy.*

#### a) From highest to lowest priority, how would you rank the following activities?

- (i) Beginning new research and standard-setting projects
- (ii) Supporting the implementation of ISSB Standards IFRS S1 and IFRS S2
- (iii) Researching targeted enhancements to the ISSB Standards
- (iv) Enhancing the Sustainability Accounting Standards Board (SASB) Standards

From highest to lowest priority, we would rank the activities as follows:

- Supporting the implementation of ISSB Standards IFRS S1 and IFRS S2.
- Equal priority to: Researching targeted enhancements to the ISSB Standards, beginning new research and standard-setting projects, enhancing the international applicability of the SASB Standards and maintaining the SASB Standards.
- Advancing the industry-based research and standard-setting work inherited from the SASB.

#### b) Please explain the reasons for your ranking order and specify the types of work the ISSB should prioritise within each activity.

The first set of ISSB Standards (IFRS S1 and IFRS S2) is an important step towards a global baseline of sustainability-related financial disclosures. They support the IFRS Foundation's mission to develop standards that bring transparency, accountability and efficiency to financial markets around the world, and could provide investors with decision-useful information on companies' sustainability-related risks and opportunities.

**The success of IFRS S1 and IFRS S2, and by extension the credibility of the next ISSB Standard, rely on effective implementation by preparers, auditors, investors and regulators.**

Effective implementation is also necessary for the development of future standards. This is because the successful adoption of IFRS S1 and IFRS S2 would increase the likelihood that jurisdictions choose to adopt future ISSB Standards, and entities must implement IFRS S1 to appropriately report against future ISSB Standards. Therefore, the ISSB's priority should be to support implementation through capacity building efforts, application guidance and development of a digital reporting taxonomy. The PRI looks forward to continued engagement with standard-setters, jurisdictions and investors to support this work, including through the IFRS Foundation's [Partnership Framework for capacity building](#).

Implementation support should also include clarification on how companies can use the ISSB Standards in tandem with the GRI Standards and European Sustainability Reporting Standards (ESRS). Guidance on how the ISSB Standards can be applied alongside more impact-focussed standards would help companies and jurisdictions to effectively implement the ISSB’s “building blocks” approach, to meet the data needs of all investors.

In addition, once widely adopted and implemented, IFRS S1 and IFRS S2 would benefit from targeted enhancements to better account for trade-offs and aggregation across multiple sustainability issues. We welcome the ISSB’s commitment to incorporate reporting on Just Transition considerations within an update to IFRS S2 and encourage the ISSB to follow the integrated approach taken by the UK Transition Plans Taskforce – accounting for interdependencies and impacts of transition planning on nature, adaptation and just transition in reporting guidance. We also encourage ISSB to align with existing just transition disclosure frameworks, such as the [Climate Action 100+ Net Zero Company Benchmark](#) Indicator 9: Just Transition or the World Benchmarking Alliance just transition assessments.

We also welcome the ISSB’s commitment to incorporate reporting on risks and opportunities at the nexus of climate and nature, including biodiversity, deforestation and water. Given prevalent interconnections between these issues and climate – for example, climate change is a key driver of biodiversity loss and vice-versa, with 13% of global GHG emissions from deforestation<sup>1</sup> – such additions are needed to ensure that entities meet the breadth of investor data needs on climate.

These additions should, in particular, capture needed disclosures on risks and opportunities with respect to land- and sea-use change, and risks and opportunities with respect to overexploitation of natural resources, as the two biggest drivers of biodiversity loss (as identified by IPBES) and deeply linked to climate change. It should be acknowledged that additions related to other drivers of biodiversity loss (such as invasive species or pollution) may not be possible or appropriate in the context of IFRS S1 or IFRS S2, and should therefore be captured in future issue-specific ISSB standards.

Beyond climate, investors rely on material information across a broad range of sustainability issues for decision-making. Given the system-level consequences of not addressing the sustainability issues proposed for inclusion in the ISSB’s next two-year work plan, efforts should commence as soon as practicable (see our response to Question 3) to develop standards in these areas.

Likewise, we recognise the equal importance of enhancements to SASB Standards as they play an important role in the implementation of ISSB Standards: in identifying material sustainability risks and opportunities and disclosures about these [IFRS S1, paragraphs 54-58] and as sector-specific implementation guidance within the ISSB Standards. As a result, we recommend that the activities to enhance the international applicability of the SASB Standards and maintenance of these standards are prioritised alongside the above activities. We believe this will improve reporting against the ISSB Standards on issues for which there is no issue-specific ISSB Standard, especially in markets where the use of SASB Standards is widespread.

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<sup>1</sup> IPCC, 2019, [Special Report on Climate Change and Land](#).



As part of ongoing activities when developing new research projects, the ISSB should aim to make issue-specific adjustments to the SASB Standards. In this regard, while we acknowledge the importance of the proposed activity of advancing industry-based research and standard-setting work inherited from the SASB – the final activity noted under enhancements to SASB standards – we recommend this be prioritised below the above activities.

With respect to the activities on new projects, targeted enhancements to ISSB Standards and enhancements to SASB Standards, we encourage the ISSB build on established practice and improve interoperability with standards, rules, laws and frameworks by leveraging:

- existing regulatory requirements, such as the European Sustainability Reporting Standards (ESRS);
- existing voluntary initiatives such as the Taskforce on Nature-related Financial Disclosures and GRI Standards; and
- emerging initiatives aimed at developing disclosure frameworks for social issues.

**c) Should any other activities be included within the scope of the ISSB's work? If so, please describe these activities and explain why they are necessary.**

Given the resources required to implement the above activities, no additional activities should be included within the scope of the ISSB's work.

## **2. CRITERIA FOR ASSESSING SUSTAINABILITY REPORTING MATTERS THAT COULD BE ADDED TO THE ISSB'S WORK PLAN**

*Paragraphs 23–26 within the consultation document discuss the criteria the ISSB proposes to use when prioritising sustainability-related reporting issues that could be added to its work plan.*

*The consultation document proposes seven criteria to use in deciding whether a potential project will meet investors' needs:*

- 1. The importance of the matter to investors.*
- 2. Whether there are any deficiencies in the way that companies disclose information on the matter.*
- 3. The types of companies that the matter is likely to affect, including whether the matter is more prevalent in some industries and jurisdictions than others.*
- 4. How pervasive or acute the matter is likely to be for companies.*
- 5. How the potential project interconnects with other projects in the work plan.*
- 6. The complexity and feasibility of the potential project and its solutions.*
- 7. The capacity of the ISSB and its stakeholders to progress the project in a timely way.*

**(a) Do you think the ISSB has identified the appropriate criteria?**

Yes, the proposed criteria are largely appropriate in deciding which matters to add to the ISSB's work plan. Our recommended adjustments to the current list are set out below.

- Criterion 2 should be amended to clarify that “deficiencies” refer to a lack of availability and quality of data – referring back to the ISSB's characteristics of useful sustainability-related financial information. These are both obstacles to decision-useful information for investors and should be considered in project prioritisation.

- Criterion 4 should be amended to reference “materiality” as opposed to pervasiveness and acuteness for companies. This would provide the ISSB with a clearer criterion to rank projects, and one that is better aligned with the reporting needs of investors.
- Criterion 5 should better explain that interconnection is seen as an important reason for a standard to be considered. As all of the research projects noted in Question 3 display some form of interconnection, it is important that the IFRS standards require disclosure of these points. Therefore, we recommend that the criterion is amended to: *How the matter interconnects with existing Standards and other projects in the workplan.*

Further, we welcome the caveat within the consultation document that “the relative importance of each criterion is likely to vary depending on the circumstances surrounding the potential project” – this will help to ensure that each sustainability-related reporting issue is assessed against relevant criteria.

#### (b) Should the ISSB consider any other criteria? If so, what criteria and why?

We encourage the ISSB to also consider the following criterion: **existence of mature industry practice and initiatives**. We note this is different to Criterion 2 and believe it would:

- support the ease of development of standards and thereby ensure the feasibility of projects for ISSB staff;
- ensure capacity in the market for reporting, which will ensure a minimum quality of the reporting; and
- facilitate the global interoperability of ISSB Standards, if these initiatives have already been embedded into regional regulations.

This is exemplified on the issue of climate change. The ISSB was able to draft a high-quality climate reporting standard at pace by leveraging the longstanding, widely used and fit-for-purpose TCFD Recommendations.

It is also important to note that the maturity of industry practice is an important proxy for the importance of sustainability issues to investors.

### 3. NEW RESEARCH AND STANDARD-SETTING PROJECTS THAT COULD BE ADDED TO THE ISSB’S WORK PLAN

*Paragraphs 27–38 within the consultation document provide an overview of the ISSB’s approach to identifying sustainability-related research and standard-setting projects. Appendix A of the consultation document describes each of the proposed projects that could be added to the ISSB’s work plan.*

(a) Taking into account the ISSB's limited capacity for new projects in its new two-year work plan, should the ISSB prioritise a single project in a concentrated effort to make significant progress on that, or should the ISSB work on more than one project and make more incremental progress on each of them?

- (i) If a single project, which one should be prioritised? You may select from the four proposed projects in Appendix A or suggest another project.
- (ii) If more than one project, which projects should be prioritised and what is the relative level of priority from highest to lowest priority? You may select from the four proposed projects in Appendix A or suggest another project (or projects).

**The PRI recommends that the ISSB undertake more than one project and prioritise as follows:**

- Prioritise planned work to incorporate reporting requirements on risks and opportunities at the nexus of climate and nature (including in relation to deforestation, biodiversity and water) also during its next two-year work plan, drawing on the recommendations of the TNFD. Our recommended adjustments as part of the proposed update to IFRS S2 are outlined in the response to Question 1.
- Prioritise the proposed project on human rights (and social issues) during its next two-year work plan (2024-2025). Note, this project should also incorporate the proposed project on human capital.
- Conduct the proposed project on integration in reporting as a secondary project, with focus on an initial scoping phase during the next two-year work plan. As set out in our response to Question 7(c), this would then be followed by a second phase in the ISSB's second work plan operated as a joint project with the IASB.
- Publicly commit to producing a standard on biodiversity, ecosystems and ecosystem services (BEES) by the end of the following two-year work plan (2026-2027), building on the recommendations of the TNFD, and:
  - Strongly encourage companies to adopt the TNFD v1.0 Framework, the GRI 304 and other voluntary frameworks in preparation during ISSB's next two-year work plan 2024-2025, and in recognition of the Global Biodiversity Framework Target 15 and expectations that governments put in place measures to mandate reporting on biodiversity by corporates and financial institutions by 2030.

It is important to note that our proposed approach does not constitute PRI's view on the importance or urgency of each sustainability topic or matter. Reporting on biodiversity,<sup>2</sup> human rights and human capital and integration in reporting are highly important to our signatories, so it is important that progress is made in all of these areas over the coming years.

However, recognising that the ISSB has limited capacity available, our proposed approach to the prioritisation of projects is based on an assessment of:

- the anticipated progress of standardised reporting on these topics and matters without the ISSB research projects, and the resulting implications for our signatories' data needs; and
- the maturity of sustainability reporting practice on these topics and matters, and the resulting market readiness for a formalised standard.

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<sup>2</sup> Evidenced by 154 financial institutions (nearly \$25 trillion AUM) signing the PRI, UNEP FI and Finance for Biodiversity Foundation statement for an ambitious global biodiversity framework, ahead of COP15: <https://www.unpri.org/financial-sector-statement-on-biodiversity-for-cop15/10750.article>.

We recognise that reporting practices typically follow a natural progression: starting with disclosure among a small group of market participants; followed by the development and implementation of voluntary initiatives, frameworks and norms to facilitate management systems and reporting practices; before mandatory standard-setting developments formalise the reporting requirements. As a result, our assessment of maturity considers multiple factors, including: whether concepts and indicators are agreed by users and preparers; whether data to meet these requirements are available to users (including the systems to create this data); and whether there is sufficient market uptake for these reporting practices to be implemented to meet the coverage and quality of investor data needs.

It is also important to note that our comments on the implementation of prioritised projects are limited by the lack of information on how the research projects will ultimately be implemented.

Our rationale for the proposed prioritisation is explained below.

#### Human rights and social issues

Signatories have clearly indicated demand for decision-useful data on human rights and social issues, which would include human capital. We have identified the need for a broad human rights and social issues standard that sets out core reporting principles. Note, the PRI's position on human capital (or workforce) is that it is a part of the broader framing of human rights and social issues and, therefore, should not be captured in a separate research project.

Currently there are no human rights standards or frameworks on corporate reporting which provide sustainability-related financial information. However, as a result of the adoption of global OECD and UN standards more than a decade ago, many companies have developed management systems and reporting practices which should be leveraged, and early work is underway to develop a Task Force on Social-related Financial Disclosures (TSFD) and Task Force on Inequality-related Financial Disclosures (TIFD). As a result, there is a significant opportunity for the ISSB to build on existing market practice to facilitate a corporate sustainability-related financial reporting standard on human rights and social issues. Without a project from the ISSB, we do not see standardised corporate sustainability-related financial reporting developing in the short-medium term for human rights and social issues.

Finally, we recognise that the link between human rights issues and company financials, in some instances, can be complicated to measure. However, we view this as a reason for the ISSB to undertake standard-setting work in this area, complemented by the integration in reporting project. This is part of the reason why a focus on workforce, which has long established links to financial impacts, within the human rights and social issues standard may be a pragmatic first step to consider for metrics in the wider standard. However, this should not be done in a disjointed manner from other human rights and social issues, and should be part of the wider standard.

#### Biodiversity, ecosystems and ecosystem services (BEES)

Like human rights, there is strong investor demand for decision-useful data on biodiversity. However, unlike human rights, there is already a framework that looks to provide sustainability-related financial information on biodiversity with the Taskforce on Nature-related Financial Disclosures (TNFD)

framework. The TNFD will finalise its v1.0 Disclosure Framework by September 2023 and the PRI strongly believes this should provide a clear starting point for a future ISSB BEES standard.

We recommend that the ISSB focuses its work on BEES in its initial two-year workplan to the activity on enhancing current ISSB standards: incorporating reporting requirements on risks and opportunities at the nexus of climate and nature – as set out in our response to Question 1. However, it is important to note that these additions would be unlikely to capture needed disclosures on all BEES-related risks and opportunities within the TNFD Framework, such as those linked to pollution and invasive species.

As such, in its second two-year work plan (2026-2027), we recommend that the ISSB finalise a BEES reporting standard. We believe this phased approach would allow ISSB standard-setting to be developed at pace on this issue and resulting jurisdiction-level adoption to be accelerated in the future, for the following reasons:

- Biodiversity is at a nascent stage of reporting as agreement is still needed on foundational concepts and indicators before reporting practice can mature and ISSB standard setting should commence. Whilst the TNFD has initiated action and made significant progress on these, there remain gaps that will have to be filled even after v1.0 of the disclosure framework is released. [PRI's review of the current beta v0.4 framework](#) indicates a number of gaps that are likely to be filled over time through research, international agreement (e.g., on terms and specific indicators) or updates to the TNFD framework, complemented by capacity building among reporting preparers and users. However, developing this global consensus requires international agreement on definitions and concepts (e.g. the formal definition of the TNFD's criteria for a priority location) that is beyond the scope of the standard setting process.
- Market uptake of biodiversity reporting remains at an early stage.<sup>3</sup> Although there are a number of organisations that have piloted versions of the TNFD's beta framework, the focus of the TNFD following release of its v1.0 Framework is to support market uptake. This is required to improve the coverage and quality of reporting, giving investors the data they would need to meet their own reporting requirements and ensure a level of acceptance of any standards internationally.

While this approach risks limiting action by companies and investors to tackle nature-related risks and implement actions set out by the Kunming-Montreal Global Biodiversity Framework,<sup>4</sup> we expect that disclosure would continue to grow as the TNFD is adopted voluntarily, similar to the company- and jurisdiction-level adoption of the TCFD recommendations. For this reason, the ISSB should strongly encourage companies to adopt the TNFD v1.0 Framework, as well as the GRI 304 and other voluntary frameworks, to build capacity among companies during its next two-year work plan (2024-2025) and facilitate the implementation of a future ISSB BEES standard.

Finally, it is important to note that while both biodiversity and human rights reporting have limited market uptake, a key distinction is the maturity of reporting on each issue. On human rights, the foundational concepts and definitions have been long established globally and companies have been developing management systems and reporting practices to address the global OECD and UN standards; whilst biodiversity reporting remains at an early stage (for the reasons listed above). As a

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<sup>3</sup> For example, [2021 research](#) from Credit Suisse and partners found that 70% of financial respondents believed a lack of available data was a key barrier to making investments supporting biodiversity.

<sup>4</sup> Specifically, Target 15 of the Kunming-Montreal Global Biodiversity Framework which mandates assessment and disclosure of impacts, dependencies and risks on biodiversity from large and transnational businesses and financial institutions by 2030.

result, within the next two years, we see the formalised ISSB standard setting process as more appropriate for the current state and expected development of human rights and social issues reporting than for BEES reporting.

### Integration in reporting

Evidence suggests that for all sustainability issues, current company disclosures seldom achieve collective consideration of the interdependencies, synergies and trade-offs between:

- the various resources and relationships reported in general purpose financial reports; and
- how the value that an entity creates for itself and for its investors is inextricably linked to the value the entity creates for other stakeholders, society and the natural environment.

This research project would provide companies with needed guidance on integrating sustainability risks and opportunities, externalities and system-wide effects into financial assessment. As the financial assessment of companies remains at the core of investment decisions, the PRI's signatories require this information and have asked for this in previous engagement.

We note that the IASB (and similar bodies) identify a number of criteria for individual items to be recognised in the financial statements. The implications of this are two-fold on financial information:

- These requirements can inhibit the already complex translation of sustainability risks and opportunities into figures that can inform the financial statement.
- In instances where the company wants to integrate these risks and opportunities, they may be unwilling to go beyond a narrow interpretation of these criteria – such as requirements for intangible assets to be recognised – given concerns on litigation risk or whether their auditors would accept this interpretation.
  - The boundaries of recognition of these line items in the financial statements are not well specified for sustainability reporting. As such, guidance is needed to ensure this information is at least reported by companies in its general purpose financial reporting – namely its Management Discussion and Analysis (MD&A) and notes to the financial statements – and is accepted by auditors.

In addition, investors have indicated a need for corporate reporting which better captures links between entities':

- financial performance, financial position and cash flows;
- sustainability-related risks and opportunities (i.e. sustainability-related financial information); and
- sustainability performance<sup>5</sup> and contribution to sustainability outcomes<sup>6</sup>, which can be financially material over the short, medium and long-term.<sup>7, 8</sup>

We envision this project would help to address these issues, as it would improve companies' understanding of the boundaries of reporting on the consequences of sustainability risks and opportunities on financial position, financial performance and cash flows.

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<sup>5</sup> How an investee's operations and products positively or negatively affect people and the environment.

<sup>6</sup> How an investee's sustainability performance contributes to long-term sustainability goals and thresholds.

<sup>7</sup> For instance, as governments and regulators develop sustainability policies at a rapid pace, alignment (or not) with policy objectives is increasingly understood as financially relevant.

<sup>8</sup> This is based on feedback from signatories and has been evidenced in the PRI's recent research on an [Investor Data Needs framework](#).

Finally, the ISSB has indicated that this project may be more complex than other tentative projects and may constrain its resources, limiting work on other projects. Therefore, we have recommended that this work is implemented through two phases over a four-year period: an initial scoping phase to identify key links between sustainability-related financial information and financial performance, before these are explored in more detail in a follow-up phase.

We understand from the consultation document that the IASB's potential involvement could be a significant factor in constraining resources. However, given the potential implications for accounting requirements and jurisdictional adoption of this approach, the PRI recognises that involvement of the IASB in some capacity is important to further this project. As a result, we recommend limited IASB involvement in the initial phase, with a joint project only in place for the second phase. Unfortunately, we are not able to comment on the formal relationship that the IASB could take in the initial phase without more information on the potential (administrative) options available to the ISSB.

***For more information about our additional recommendations for each of the research projects, please refer to our responses to Questions 4-7.***

#### **4. NEW RESEARCH AND STANDARD-SETTING PROJECTS THAT COULD BE ADDED TO THE ISSB'S WORK PLAN: BIODIVERSITY, ECOSYSTEMS AND ECOSYSTEM SERVICES (BEES)**

*The research project on biodiversity, ecosystems and ecosystem services is described in paragraphs A3–A14 of Appendix A of the consultation document.*

*Potential BEES-related-subtopics are identified in paragraph A11:*

- *water (including freshwater and marine resources and ecosystems use);*
- *land-use and land-use change (including deforestation);*
- *pollution (including emissions into air, water and soil);*
- *resource exploitation (including material sourcing and circular economy); and*
- *invasive non-native species.*

**(a) Of the subtopics identified in paragraph A11, to which would you give the highest priority? Please select as many as applicable. Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You may also suggest subtopics that have not been specified.**

**To help the ISSB analyse the feedback, where possible, please provide:**

- (i) a short description of the subtopic (and the associated sustainability-related risks and opportunities); and**
- (ii) your view on the importance of the subtopic with regard to an entity's sustainability-related risks and opportunities and the usefulness of the related information to investors.**

The five subtopics identified for Biodiversity, Ecosystems and Ecosystem Services (BEES) in paragraph A11 are all deemed highly appropriate as they correspond to the five key drivers of



biodiversity loss, as identified by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES).<sup>9</sup> In addition, these are all key areas of focus identified by the recently adopted Kunming-Montreal Global Biodiversity Framework. This means that associated negative impacts on biodiversity should be of particular focus for financial institutions to align their financial flows to the goals of the Global Biodiversity Framework.<sup>10</sup>

**From a priority perspective, particular emphasis should be put on land-use and land-use change and water (including freshwater and marine resources and ecosystems use), and then resource exploitation.** Our reasoning is outlined below.

- Land-use change has been identified as the greatest driver of biodiversity loss, across terrestrial and freshwater ecosystems and is inherently connected to other sustainability issues. For example, deforestation accounts for 13% of global greenhouse gas emissions according to the IPCC.
- The Office of the United Nations High Commissioner for Human Rights has also highlighted land-use as a cross-cutting issue that impacts directly on the enjoyment of a number of human rights such as food security, urbanization and conflict avoidance.<sup>11</sup>
- Overexploitation of natural resources is the next greatest driver of biodiversity loss for terrestrial and freshwater ecosystems, and the greatest driver of biodiversity loss in marine ecosystems (with sea-use change as the second greatest driver). Research from UNEP shows that among the top 10 high-risk sectors for financial institutions, the most significant impacts (very high to high materiality, according to ENCORE's materiality rankings)<sup>12</sup> were associated with land and sea-use change, shortly followed by resource exploitation.<sup>13</sup>
- Similarly, investors, having carried out heatmap assessments of their portfolio for exposure to biodiversity risks, have found high to very high exposure to land-use and freshwater impacts and dependencies.<sup>14</sup>

**(b) Do you believe that sustainability-related risks and opportunities related to this topic are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?**

**Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be (i) substantially different or (ii) substantially the same across different industries, sectors or geographic locations.**

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<sup>9</sup> IPBES, 2019, Global Assessment Report on Biodiversity and Ecosystem Services. Available at: <https://www.ipbes.net/global-assessment>.

<sup>10</sup> Further information on implications of the Kunming-Montreal Global Biodiversity Framework for investors available at: <https://www.unepfi.org/industries/investment/stepping-up-on-biodiversity/>.

<sup>11</sup> Available here: [OHCHR and land and human rights](#).

<sup>12</sup> Further details available at <https://encore.naturalcapital.finance/en/data-and-methodology/materiality>.

<sup>13</sup> UNEP, 2022, Prioritising nature-related disclosures: considerations for high-risk sectors. Available at: <https://www.unepfi.org/publications/prioritising-nature-related-disclosures-considerations-for-high-risk-sectors/>.

<sup>14</sup> Robeco, 2020, [Robeco's approach to biodiversity](#).



We believe there are sufficient commonalities in the BEES risks and opportunities across industries, sectors and geographies, to capture the performance of business activities in a standardised way – to the extent possible. **A common body of reporting information across sectors and geographies is necessary to support financial decision-making and to ensure investors and other financial institutions have access to relevant and consistent data. Tailored reporting to different sectors and geographies should be additional to this common body, to enable further scrutiny and accountability on specific risks and opportunities.**

Risks and opportunities associated with BEES are location-dependent, as each geography is characterised by different environmental conditions leading to diversity of ecosystems and biodiversity, the ecosystem services they deliver as well as the effect and scope of impacts and dependencies from an economic activity. However, common, overarching types of nature-related impacts and dependencies (from which risks and opportunities arise) can be identified. For example, the Nature Capital Protocol<sup>15</sup> has identified key impact drivers such as disturbances, freshwater or marine ecosystem use and soil pollutants. Ecosystem services, on which economic activities depend, have also been classified, for instance through the UN SEEA Ecosystem Accounts.<sup>16</sup>

In parallel, industries and sectors have different impacts and dependencies given their economic activities. For example, the [ENCORE](#) online tool showcases the dependencies and impacts associated with direct operations from different sectors, sub-industries and production processes. However, the risks and opportunities stemming from those impacts and dependencies are generally grouped using sector agnostic classifications. For example, the Network for Greening the Financial System<sup>17</sup> and the Cambridge Institute for Sustainability Leadership<sup>18</sup> have organised nature-related risks and opportunities into physical risks, transition risks etc. This approach has also been adopted by the Taskforce on Nature-related Financial Disclosures (TNFD), which complements this core sector-agnostic framing with sector-specific disclosure requirements.

Finally, with respect to the financial sector, the PRI [welcomed](#) the TNFD's stand-alone disclosure guidance for financial institutions ([Annex 4.4](#)), and the recognition of the constraints for financial institutions such as the time-lag for data availability from portfolio companies, reliance on external data providers and proxy data, and the difficulty of aggregating certain disclosure metrics at portfolio level. An ISSB standard on biodiversity should adopt similar guidance and approaches for the financial sector.

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<sup>15</sup> Further information available at [https://capitalscoalition.org/capitals-approach/natural-capital-protocol/?fwp\\_filter\\_tabs=training\\_material](https://capitalscoalition.org/capitals-approach/natural-capital-protocol/?fwp_filter_tabs=training_material).

<sup>16</sup> Further information available at <https://seea.un.org/ecosystem-accounting>.

<sup>17</sup> NGFS (2021) Biodiversity and financial stability: building the case for action. Available at: [https://www.ngfs.net/sites/default/files/medias/documents/biodiversity\\_and\\_financial\\_stability\\_building\\_the\\_case\\_for\\_action.pdf](https://www.ngfs.net/sites/default/files/medias/documents/biodiversity_and_financial_stability_building_the_case_for_action.pdf).

<sup>18</sup> CISL (2021) Handbook for Nature-related Financial Risks: Key concepts and a framework for identification. Available at: <https://www.cisl.cam.ac.uk/resources/sustainable-finance-publications/handbook-nature-related-financial-risks>.

(c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard-setters and framework providers to expedite the project, while taking into consideration the ISSB's focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A13 should be utilised and prioritised by the ISSB in pursuing the project? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You can suggest materials that are not specified. You can suggest as many materials as you deem necessary. To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

We strongly welcome the intent to leverage and build upon all the materials and organisations referenced in paragraph A13, to ensure interoperability of reporting frameworks and standards as well as to quick-start ISSB's own research efforts.

**We particularly encourage ISSB to leverage the work of:**

- TNFD: as a market-led initiative that has developed a risk management and disclosure framework, the TNFD has: carried out extensive research since 2021 on nature-related risks and opportunities; benefited from feedback on four beta versions from a range of stakeholders; and benefitted from extensive piloting with both corporates and financial institutions. Over 200 financial institutions are currently part of the TNFD Forum,<sup>19</sup> showcasing the strong appetite and interest from the financial sector.
- Global Reporting Initiative: GRI carried out a public consultation on its revised GRI Biodiversity Standard (GRI 304) from December 2022 to February 2023 to align it with the latest developments in the field, and is expected to release its final version in Q4 2023.
- Partnership for Biodiversity Accounting Financial (PBAF): as an established standard for biodiversity impact and dependency assessments with support from over 50 financial institutions.
- European Commission's Corporate Sustainability Reporting Directive (CSRD) and underpinning European Sustainability Reporting Standards (ESRS): as leading key policy developments on sustainability reporting standards, including on biodiversity, and to ensure coherence between ISSB's work and the ESRS which, by some estimates, will apply to c. 49,000 companies.<sup>20</sup>
- European Commission's Align project: a multi-stakeholder research project that has set out [recommendations](#) on measurement approaches for the private sector on their biodiversity impacts and dependencies, with an intent to ensure coherence and scientific robustness in measurement approaches.

In addition to the materials mentioned in paragraph A13, we recommend that the ISSB account for the [additional guidance](#) published by the Convention on Biological Diversity on the individual targets of the Kunming-Montreal Global Biodiversity Framework, to ensure alignment of any reporting expectations and standard with global sustainability goals.

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<sup>19</sup> The [TNFD Forum](#) is a global consultative group of institutions, opened to a diversity of stakeholders, with over 1,100 institutions (as of June 2023) spread over 58 countries and territories.

<sup>20</sup> KPMG, 2022, [Is your organization ready for the Corporate Sustainability Reporting Directive?](#)

## 5. NEW RESEARCH AND STANDARD-SETTING PROJECTS THAT COULD BE ADDED TO THE ISSB'S WORK PLAN: HUMAN CAPITAL

*The research project on human capital is described in paragraphs A15–A26 of Appendix A of the consultation document.*

*Potential human capital-related-subtopics identified in paragraph A22:*

- *worker wellbeing (including mental health and benefits);*
- *DEI;*
- *employee engagement;*
- *workforce investment;*
- *the alternative workforce;*
- *labour conditions in the value chain; and*
- *workforce composition and costs.*

**(a) Of the subtopics identified in paragraph A22, to which would you give the highest priority? Please select as many as applicable. Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You may also suggest subtopics that have not been specified.**

**To help the ISSB analyse the feedback, where possible, please provide:**

- (i) a short description of the subtopic (and the associated sustainability-related risks and opportunities); and**
- (ii) your view on the importance of the subtopic with regard to an entity's sustainability-related risks and opportunities and the usefulness of the related information to investors.**

As noted above, the PRI's position is that human capital (and its sub-topics) should be incorporated as part of the proposed project on human rights and social issues. The below outlines our position on what we consider to be the scope of human capital.

The PRI's paper [How Investors can Advance Decent Work](#) sets out how investors can help to ensure decent work at their investee companies, including establishing minimum safeguards, framed by the International Labour Organization's core conventions and the Universal Declaration of Human Rights. **The report sets out the following four interconnected pillars as safeguard expectations for workers:**

- social dialogue and worker voice;
- equal opportunity and treatment;
- a living wage; and
- benefits, safety and social protection.

The areas of focus to be covered as part of human capital within a wider human rights and social standard should allow users of information to understand whether a company is contributing to the respect of these safeguards. For this reason, the main criteria for prioritisation should be whether the areas of focus highlighted provide information on the respect of the safeguards. The below

assessment begins by summarising sub-topics to be included within the scope of human capital, followed by an assessment of the remaining subtopics identified in the ISSB consultation.

## **(A) Subtopics to be prioritised within human capital**

### (i) Worker wellbeing

This subtopic cuts across all four of the safeguard expectations. We recognise there are material risks to companies resulting from a failure to adequately address worker wellbeing, including (but not limited to):

- productivity loss linked to absenteeism and sick leave; and
- litigation risks.

Information linked to worker wellbeing can help investors to prioritise immediate risks to workers (based on saliency and scope) as well as emergent occupational health and safety issues which may lead to material impacts if left unaddressed.<sup>21</sup>

### (ii) Diversity, Equity and Inclusion

This subtopic sits within the safeguard expectations for equal opportunity and treatment. As highlighted in the PRI's 2022 paper [Diversity, Equity and Inclusion: Key action areas for investors](#), these issues have a clear basis in human rights. As articulated by the UN Guiding Principles on Business and Human Rights (UNGPs), investors have a responsibility to respect human rights and should therefore consider DEI issues.

Moreover, there is a clear link between DEI and financial performance. Strong DEI within a company can positively affect decision-making, levels of employee engagement, reputation amongst stakeholders, innovation, and access to untapped markets.<sup>22</sup>

Companies and investors also run into significant risks in failing to improve or in ignoring DEI: for example, studies in the US show high incidences of sexual harassment can impact market performance, profitability, as well as staff productivity and turnover.<sup>23</sup>

**In addition to the two subtopics already identified, we note the following sub-topics are also safeguard expectations and should be considered under this project.**

### (iii) Workers' voice and social dialogue

These represent one of four pillars of decent work, aligned with existing international frameworks such as the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises, and the ILO Core Conventions. The PRI's paper [How Investors can Advance Decent Work](#) highlights the relevance of this topic for investors, and how these can play a key role in enabling workers' voices by respecting representative bodies including unions, occupational health and safety committees and social dialogue structures at a company or industry level. Worker organisations can

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<sup>21</sup> PRI, 2022, [How investors can Advance Decent Work](#), findings section (page 12). For the report, 15 advanced PRI signatories were interviewed on a range of topics related to investor data needs.

<sup>22</sup> Forbes, 2020, [How Inclusion Improves Diversity And Company Performance](#).

<sup>23</sup> Au, Dong & Tremblay, 2019, [Employee Sexual Harassment Reviews and Firm Value](#).

help to address grievances, shape decent work outcomes, and serve as a pathway for informal workers to gain access to benefits and better working conditions. Allowing more workers to enter the formal economy facilitates system-wide growth and stability.

#### (iv) Benefits, safety and social protection

As part of the decent work safeguards, companies should provide their workforce with access to basic benefits including healthcare, weekly rest, holiday, paid sick leave, parental leave and a living pension or other robust retirement benefits.

An example of an issue where investors have started taking action, and that is providing promising results, is that of inequality-oriented workforce metrics. Investors are increasingly recognising the systemic risks to the political, economic and financial systems that underpin investment returns – as well as the pressing need, highlighted by the Covid-19 pandemic, to address the climate crisis in tandem with growing inequality. As a result, investors are demanding data and workplace metrics regarding inequalities of income, wealth and opportunity, particularly data that highlights how groups within the workforce compare.

### **(B) Subtopics which require clarification, as they can apply across the workforce**

#### (i) Workforce investment

Workforce investment can be carried out across all other subtopics indicated in the consultation. For instance, investment can be made in workplace health and safety management systems to provide a structured framework for recording and supporting safety and health in the workplace. At the same time, workforce investment can go beyond workers' wellbeing and encompass areas such as upskilling of the workforce. This subtopic needs to be clarified in order to understand the target and scope of what constitutes workforce investment activities.

#### (ii) Alternative workforce

More clarity is needed about what is included in this category, and what possible disclosures would be connected to it. It is important that information on this type of workers is not only limited to this section. While there is clearly an interest in obtaining information on the whole makeup of the workforce, all workers, inclusive of contractors and sub-contractors, ought to be included in the other sub-issues and not limited to a specific category.

This would also be in line with the suggested changes to the EU's Sustainable Finance Disclosure Regulation's (SFDR) Principal Adverse Indicators (PAI). The suggested opt-in indicators included in the new text requires disclosure of the "average share of non-guaranteed hours employees as share of total employees", the "average share of own employees with a temporary contract as share of total employees", and the "average share of own employees with a temporary contract as share of total employees".

#### (iii) Labour conditions in the value chain

More clarity is needed about what will be included in this topic area (e.g. forced labour, child labour, informal work, etc.). Clarity is also needed on what is implied by value chain in terms of scope.

(b) Do you believe that sustainability-related risks and opportunities related to this topic are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?

Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be (i) substantially different or (ii) substantially the same across different industries, sectors or geographic locations.

Human capital-related risks and opportunities can be understood and framed through international human rights frameworks. We refer to these broader human rights risks and opportunities in Question 6(b). **It is important for the ISSB to develop sector-agnostic disclosure standards for human capital. Research suggests that human capital is material to companies across sectors,<sup>24</sup> and this approach would ensure comparability and allow investors to understand and prioritise the most salient risks to workers.** Further fragmentation of reported data, from a set of sector-specific disclosure requirements, would hinder the ability of investors to compare corporate performance across sectors in their portfolio.

Rather than adopting a lens focused on sectors or geography, it is useful to take into consideration how some macro-trends can affect workers across the labour market. In our paper [How Investors can Advance Decent Work](#), we have identified three transition risks that will have substantial impacts across sectors and geographies. These are:

- Transition to a low-carbon economy: The ILO Guidelines for a Just Transition stress the need for strong consensus regarding the goals and pathways towards social and environmental sustainability. Failure to properly consider the social components of the transition can lead to stranded workers and the exacerbation of pre-existing decent work challenges.
- Technological advances:
  - An estimated 30% of jobs are at high risk of automation by the mid-2030s. It is essential to ensure participative dialogue for affected workers as well as inclusive future job design.
  - The increase in digital labour platforms such as those across the gig economy has highlighted an increased fissuring between direct employees and contractual workers. Workers on independent contract status tend to lack social protection and are not afforded the same decent work safeguards as their counterparts.
- Demographic changes: It is estimated that the number of people aged 60-plus will double by 2050 and the youth population will continue to expand. These shifts in the labour market will also alter the supply and demand profile of migrant workers.

It is important to stress that these transitions will impact all sectors, and therefore alter the resulting sustainability-related risks and opportunities across each area identified.

While we recognise that these trends may differ in scope with respect to the various sectors or geographies, cross-sectoral standards would give investors a more holistic understanding of how

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<sup>24</sup> Saïd Business School (University of Oxford), Schrodgers, California Public Employees' Retirement System (CalPERS), 2023, [Human Capital Management Research Summary: people are our greatest asset](#).

companies are being affected and how they are responding to these growing threats and opportunities. To this end, it is important to note that the instruments regulating these issues (such as the UNGPs and the ILO conventions) have been developed at the international level, and should therefore be applied consistently across jurisdictions, including in the standard-setting process. While there may be use for sector-specific disclosures, these would only work as a complement to a wider, sector-agnostic standard on human rights and social issues.

**(c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard-setters and framework providers to expedite the project, while taking into consideration the ISSB's focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A25 should be utilised and prioritised by the ISSB in pursuing its research? Please select as many as applicable.**

**Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You can suggest materials that are not specified. You can suggest as many materials as you deem necessary. To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.**

**Materials identified that should be used to develop the ISSB standard include:**

- Global Reporting Initiative (GRI) Standards.
  - The GRI Standards provide a comprehensive set of indicators that are sector agnostic and cover all decent work safeguards.
- International Labour Organization (ILO).
  - The ILO provides an authoritative framework that ensure provisions of minimum safeguards for workers.
- Workforce Disclosure Initiative (WDI).
  - While this initiative was not included in the proposed list of materials, it is mentioned in the consultation paper. Just as importantly, the WDI system was positively referenced by several investors interviewed for the recent PRI paper [What data do investors need to manage human rights risks](#).

## **6. NEW RESEARCH AND STANDARD-SETTING PROJECTS THAT COULD BE ADDED TO THE ISSB'S WOK PLAN: HUMAN RIGHTS**

*The research project on human rights is described in paragraphs A27–A37 of Appendix A of the consultation document.*

**a. Within the topic of human rights, are there particular subtopics or issues that you feel should be prioritised in the ISSB's research? You can suggest as many subtopics or issues as you deem necessary.**



To help the ISSB analyse the feedback, where possible, please provide:

- (i) a short description of the subtopic (and the associated sustainability-related risks and opportunities); and
- (ii) your view on the importance of the subtopic with regard to an entity's sustainability-related risks and opportunities and the usefulness of the related information to investors.

**We recommend that the ISSB establishes a corporate disclosure standard across human rights and social issues.**

Institutional investors focus on human rights because there are obvious financial risks and opportunities. To name a few examples, companies can reduce operational and legal costs by avoiding community conflicts, they can improve company performance through diversity and inclusion measures<sup>25</sup> or by promoting satisfaction in the workplace which is associated with higher long-term stock returns,<sup>26</sup> or they may reduce considerable legal penalties through the appropriate management of private data.<sup>27</sup>

Institutional investors are also subject to system-wide (or systemic) risk. Decades of widening economic inequality (both within developing and developed countries) is manifesting itself in volatile economic conditions and political polarisation.<sup>28</sup> The trend has increased with the COVID-19 pandemic, and the current inflation surge. Among many factors, economic inequality is driven by the erosion of labour standards and aggressive corporate tax practices contributing to the erosion of the tax base and the delivery of essential public services.<sup>29</sup>

Human rights are now a mainstream topic for institutional investors. 2021 PRI reporting results show that 26% of reporting institutional investors used the UNGPs and / or the OECD Guidelines for Multinational Enterprises (OECD Guidelines) to set their sustainability policies or guidelines and / or identify sustainability outcomes from their investment activities. Asset owners using these international standards held a combined US\$12.5 trillion in asset under management (AUM), and the investment managers a combined US\$62.7 trillion in AUM. This represents 45% of the AUM, and investment managers representing 58% of the AUM held by these groups of reporting signatories respectively. Furthermore, [PRI's Advance initiative](#) where investors work together on social and human rights issues and use their collective influence with companies and other decision makers, including by promoting responsible political engagement by companies, to drive positive outcomes for workers, communities and society, has more than 250 participants with a combined US\$ 37 trillion in AUM.

The basis for regulatory interventions is also clearly set out with the UNGPs, which were unanimously endorsed in 2011 by the UN Human Rights Council and therefore serve as the authoritative global

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<sup>25</sup> Forbes, 2020, [How Inclusion Improves Diversity And Company Performance](#).

<sup>26</sup> Alex Edmans, Wharton School, 2010, <http://faculty.london.edu/aedmans/Rowe.pdf>.

<sup>27</sup> Barron's, 2023, [Meta Stock Dips After Getting Fined a Record \\$1.3 Billion by the EU](#).

<sup>28</sup> Chatham House, 2022, [The economic basis of democracy in Europe](#).

<sup>29</sup> Raul Felix Junquera-Varela and Bernard Haven, 2018, [Getting to 15 percent: addressing the largest tax gaps](#).



standard. As the ISSB rightfully points out, the concept of due diligence introduced by the UNGPs now forms the basis of regulation in multiple jurisdictions, including several EU countries – France, Germany, and the Netherlands – and is referenced in passed or proposed regulation on human rights, supply chain transparency or modern slavery in Australia, Canada, Japan, Norway, Switzerland, the UK, and the US.<sup>30</sup> The general regulatory trend is clear, and with it the sharply rising materiality of the topic for investors.

Outside of regulation, risks and opportunities related to social issues and human rights can materialise from relationships that an entity has with both the workforce, communities and customers / end-users. Issues can relate to all these stakeholder groups both within a business entity's own operations and throughout the value chain.

**Our recent paper [What data do investors need to manage human rights risks](#) found that investors need information on four different categories:**

- an entity's inherent human rights risk;
- the role of the board and leadership;
- quality of due diligence; and
- positive human rights outcomes to which companies have contributed.<sup>31</sup>

These categories of information allow a diverse group of institutional investors to undertake research, valuation, portfolio construction, stewardship and reporting, depending on their organisational objectives, investment strategies, mandates and regulatory contexts.

It is worth noting that currently, in the absence of quality standardised reported information, institutional investors are relying to a larger extent on: commercial service providers including data providers – often buying multiple datasets; civil society organisations, such as human rights organisations; not-for-profit benchmark providers; and their own direct engagement with companies to obtain this information.

As already highlighted in the response to Question 5, it is important to note that the PRI considers Human Capital Management as a sub-topic under a potential general standard on human rights and social issues. For this reason, we do not propose to start work on HCM before a more general standard has been developed. Rather, the ISSB should develop the HCM standard as a part of its work on human rights.

**(b) Do you believe that sustainability-related risks and opportunities related to this topic are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?**

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<sup>30</sup> Figure 2 on Legislation on human rights around the world in PRI, 2022, [What data do investors need to manage human rights risks?](#)

<sup>31</sup> Findings section (page 12). For the report, 15 advanced PRI signatories were interviewed on a range of topics related to investor data needs.

Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be (i) substantially different or (ii) substantially the same across different industries, sectors or geographic locations.

**The PRI recommends that the ISSB prioritises the development of a sector-agnostic disclosure standard for human rights and social issues**, which includes human capital (or workforce).

The UNGPs state that companies should manage their social impacts based on internationally recognised human rights.<sup>32</sup> Business entities can impact the full spectrum of human rights, across a wide range of stakeholders, including their own workforce, workers along the value chain, affected communities, and end users of their products and services. Ultimately, businesses of all sizes, all sectors and based in all geographies can impact, and be impacted by human rights issues.<sup>33</sup>

The human rights risks and opportunities of a business entity will change over time subject to internal factors (e.g., mergers and acquisitions, business expansion or discontinuity, procurement practices, technological developments) and external factors (e.g., social and political conflicts, new laws and regulation, and community relations), particularly:

- **Business model risk** – Shift’s Red Flag Business Model framework, for example, identifies human rights risk associated with the company value proposition, the value chain and the cost structure and revenue model.<sup>34</sup>
- **Sector and industry risk** – the PRI’s overview of human rights benchmarks illustrate the nature of issues across different sectors as exemplified by the Access to Medicine (pharmaceuticals and biotechnology), BankTrack (banks), Access to Nutrition (food and beverage), Ranking Digital Rights (digital platforms and telecommunications).<sup>35</sup> Furthermore, the SASB materiality map indicates the importance of different human rights issues across sectors (note that the concept of “human rights” is used in a very restricted form in the General Issue Category as it is separate from multiple human rights sub-topics such as “customer privacy”, “access and affordability”, “labour practices”, “employee health and safety”, and “employee engagement, diversity and inclusion”).<sup>36</sup>
- **Country risk** – the PRI’s paper [How to identify human rights risks: A practical guide in due diligence](#) – developed with input from more than 30 different investors – provides an overview of relevant sources that clearly demonstrates the varying human rights issues in different geographical contexts. It is particularly important to be aware of the requirement to undertake a heightened degree of human rights due diligence in high-risk and conflict-zones.

For this reason, it is important to recognise that the due diligence processes on human rights need to be broad, proactive, dynamic and recurring. **Therefore, despite the various sector- and country-level factors that shape human rights risks and opportunities, focusing narrowly from the outset on a sub-set of human rights issues associated with a specific sector, geography or**

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<sup>32</sup> These are understood, at a minimum, as those expressed in the International Bill of Human Rights and the International Labour Organisation’s Declaration on Fundamental Principles and Rights at Work and the core conventions.

<sup>33</sup> This position rests on the research carried out by the Special Representative to the UN Secretary General on Business and Human Rights, John Ruggie during his mandate from 2005 to 2011.

<sup>34</sup> Shift’s Red Flags Business Models - [About the Red Flags](#)

<sup>35</sup> Summary Table: Sector Coverage by Benchmark within PRI, 2022, [Human rights benchmarks for investors: an overview](#)

<sup>36</sup> [Exploring Materiality - SASB](#)

**business model at any given point in time is likely to be insufficient to manage these risks and opportunities.** This is why the UNGPs set out a uniform governance and management system for all sectors, companies of all sizes and in all locations.

However, we recognise that the specificities of sectors and geographies should also be reported in time, after the general (sector agnostic) approach has been adopted.

**(c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard-setters and framework providers to expedite the project, while taking into consideration the ISSB's focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A36 should be prioritised by the ISSB in pursuing its research? Please select as many as applicable.**

**Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You can suggest materials that are not specified. You can suggest as many materials as you deem necessary. To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.**

**The PRI recommends that the ISSB develops a disclosure standard on human rights and social issues, which: builds on its own IFRS S1 standard, the UNGPs and the OECD Guidelines; draws from existing reporting standards such as the European Sustainability Reporting Standards (ESRS) and GRI; and is developed with a view to ensure interoperability with these standards.**

The UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises are the globally authoritative standards on human rights. As accounted for above, they increasingly form the basis of regulation around the world; in the EU they have even been applied to institutional investors within the EU SFDR. As the 2021 PRI reporting information shows, these standards are applied by institutional investors representing more than US\$ 60 trillion in AUM in the investment management sector alone.

While the UNGPs and OECD Guidelines form the “how” (i.e. the governance and process standard), the International Bill of Human Rights, and the International Labour Organisation’s Declaration on Fundamental Principles and Rights at Work and the core conventions, form the “what” (i.e. substance of the issues / rights that the due diligence process should cover). Additional human rights instruments have elaborated on the human rights of people belonging to particular groups or populations – for example children, ethnic or religious minorities and indigenous people – recognising that they may need specific protection to fully enjoy human rights without discrimination. Some jurisdictions also have regional and national instruments with more stringent requirements.<sup>37</sup>

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<sup>37</sup> The UN Office of the High Commissioner for Human Rights, 2012, p. 9-12 – [The Corporate Responsibility to Respect Human Rights: an Interpretive Guide](#).

As documented by our research project,<sup>38</sup> we found that the UNGPs and OECD Guidelines form the basis of four categories of investor data needs in human rights.<sup>39</sup> Our analysis of existing reporting standards found that:

- EFRAG's draft European Sustainability Reporting Standards (ESRS) matched investor data needs on human rights to the highest extent.
- The GRI standards also largely matched investor data needs on human rights.
- The CDSB Framework matched investor data needs on human rights only on some aspects.

As a result, it is important for the ISSB to ensure interoperability with the ESRS and GRI standards when referencing corporate standards. In addition, we note the following important resources to consider:

- The World Benchmarking Alliance's Social Transformation Benchmark and Corporate Human Rights Benchmark (CHRB) – Institutional investor participants within PRI's Advance initiative use its sources on corporate performance on human rights. CHRB covers a number of specific sectors (food and agricultural products, apparel, extractives, ICT manufacturing, automotive manufacturing).
- The Social Transformation Benchmark – which is set to include 2,000 of the largest companies across all sectors on human rights (general process), decent work (topic specific indicators), and ethical conduct (incl. responsible political engagement, data privacy, anti-corruption and tax).

Finally, our assessment of the IFRS S1 standard recognises that the ISSB already has a strong starting point to build on. The following table maps the data needs identified by investors in our research to IFRS S1. We acknowledge that reporting on metrics for human rights can be a more complex matter, and that this may influence the content of a future ISSB standard on human rights and social issues.

	<b>Investor data needs on social issues / human rights</b>	<b>Important considerations for ISSB standards</b>
<b>Governance</b>	Understanding governance standards on social issues.	Technical governance requirements are largely the same in IFRS S1 (and TCFD) and UNGPs.
<b>Strategy</b>	<p>Understanding how material social issues affect the company strategy and financial planning, including risk and opportunities arising from:</p> <ul style="list-style-type: none"> <li>■ Inherent social concerns related to an entity's business model.</li> <li>■ Business disruption arising from impacts on specific groups of people (workers, communities, and customers / end-users).</li> </ul>	<p>Structure of IFRS S1 can largely be used for social issues, but the nature of social issues is different and their management, therefore, should be considered multi-factor, dynamic and requiring stakeholder input.</p> <p>International human rights standards are the codification of the interest of stakeholders and therefore the most sensible reference point against which a business can judge potential risks and</p>

<sup>38</sup> Table 2 – The overlap of investor data needs and international reporting standards, within PRI, 2022, [What data do investors need to manage human rights risks?](#)

<sup>39</sup> See full list in our response to Question 6(a).

	<ul style="list-style-type: none"> <li>■ Macroeconomic risk emanating from social factors (incl. economic inequality).</li> <li>■ Regulatory and legal risk related to social matters (incl. ongoing legal cases).</li> <li>■ Value chain structures and dependencies.</li> </ul>	opportunities arising from relationships in its social ecosystem.
<b>Risk management</b>	Due diligence procedures to identify and manage social and human rights risk (including stakeholder engagement) with an additional assessment of which risk and impacts have direct implications for a business entity's risks and opportunities.	The structure of IFRS S1 forms a strong foundation, but the ISSB should more explicitly recognise that to understand financial risk and opportunities related to social issues, an entity will first have to undertake a human rights due diligence process – with explicit recognition of the importance of stakeholder engagement – followed by an additional assessment of the impact on enterprise value arising from the risks and impacts identified. The latter assessment will lack credibility with investors if done without the former.
<b>Targets and metrics</b>	<p>Targets and metrics can be both qualitative and quantitative and should follow quality criteria to ensure that they are decision-useful and responding to key risks and opportunities. Stakeholder input can form an important part of validating the appropriateness of a specific metric.</p> <p>Given the relatively advanced status of this kind of metrics, the development of standardised workforce metrics across sectors (see details in the human capital management section) may be prioritised. However, as highlighted above, this should not be done in a disjointed manner from other human rights and social issues, and should be part of a wider standard.</p>	<p>The IFRS S1 section on metrics and targets is applicable to all issues, including social issues. Two further improvements on human rights and social issues are recommended:</p> <ul style="list-style-type: none"> <li>■ disclosure of degree of stakeholder input to determine validity of metrics and targets (paragraph 31); and</li> <li>■ development of standardised topic-specific metrics (e.g., workforce metrics).</li> </ul>

We believe this forms a strong basis for a general standard on human rights and social issues.

## 7. NEW RESEARCH AND STANDARD-SETTING PROJECTS THAT COULD BE ADDED TO THE ISSB'S WORK PLAN: INTEGRATION IN REPORTING

*The research project on integration in reporting is described in paragraphs A38–A51 of Appendix A of the consultation document.*

**(a) The integration in reporting project could be intensive on the ISSB's resources. While this means it could hinder the pace at which the topical development standards are developed, it could also help realise the full value of the IFRS Foundation's suite of materials. How would you prioritise advancing the integration in reporting project in relation to the three sustainability-related topics (proposed projects on biodiversity, ecosystems and ecosystem services; human capital; and human rights) as part of the ISSB's new two-year work plan?**

The PRI recommends that the ISSB conduct its proposed project on integration in reporting in two phases:

- Phase 1 would take place during the ISSB's next two-year work plan (2024-2025), focusing on setting up the foundational work to identify where key links between sustainability-related financial information and financial performance exist, and identify specific line items for guidance to be developed. This phase would have involvement from the IASB, but would not be a formal joint project.
- Phase 2 would take place during the following two years (2026-2027) to tackle the key issues identified in Phase 1. It would involve a joint project with the IASB to enhance the general requirements standard and/or application guidance in this area, with the possibility to inform the IASB's next workplan (2027-2031).

The rationale for this recommendation can be found in our detailed response to Question 3.

**(b) In light of the coordination efforts required, if you think the integration in reporting project should be considered a priority, do you think that it should be advanced as a formal joint project with the IASB, or pursued as an ISSB project (which could still draw on input from the IASB as needed without being a formal joint project)?**

- (i) **If you prefer a formal joint project, please explain how you think this should be conducted and why.**
- (ii) **If you prefer an ISSB project, please explain how you think this should be conducted and why.**

As indicated in our response to Question 7(d), the PRI recommends that an ISSB project on integration in reporting provide application guidance on assessing and reporting on connections between entities' financial effects, sustainability-related financial information, sustainability performance and contribution to sustainability outcomes.

**We recommend that this work is undertaken in collaboration with the IASB to ensure consistency in the approach between ISSB and IASB Standards, particularly given the potential implications for accounting requirements and to facilitate the eventual jurisdictional adoption/agreement of any outputs from the project.** Work that is done in collaboration with the IASB would also help justify the credibility of any additional requests made to companies.

However, as set out in our response to Question 3, to limit the resource burden the initial phase of the project could consist of voluntary input from the IASB, followed by a second phase involving a formal joint project with the IASB.

(c) In pursuing the project on integration in reporting, do you think the ISSB should build on and incorporate concepts from:

- (i) The IASB's Exposure Draft Management Commentary? If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.
- (ii) The Integrated Reporting Framework? If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.
- (iii) Other sources? If you agree, please describe the source(s) and any particular concepts that you think the ISSB should incorporate in its work.

(i) Yes, in pursuing this project, the ISSB should leverage elements of the IASB's [Exposure Draft Management Commentary](#), including:

- suggested factors to consider in judging how much to aggregate information – such as the possibility that items of information that are not material individually may be material when aggregated together [paragraph 12.11];
- reporting on how the business model and strategy depend on certain resources and relationships, and the entity's ability to maintain these resources and relationships [paragraphs 7.6-7.7 and 15.13-15.16];
- reporting on drivers of financial performance and financial position, financial resilience and ability to create value and generate cash flows in the future [paragraph 10.5];
- reporting on adjusted financial effects to exclude the effects of certain events or circumstances [paragraph 10.10]; and
- reporting on changes in amounts from previous periods and quantification of the effects of each contributing factor [paragraph 15.26].

(ii) Yes, this work should also build on aspects of the [Integrated Reporting Framework](#), such as guidance on:

- reporting on how the outcomes of business activities or outputs on the “capitals” that entities use or affect leads to value creation, preservation or erosion – c.f. Section 2 (“Fundamental Concepts”);
- determining the reporting boundary to identify risks, opportunities and outcomes attributable to (or associated with) entities/stakeholders beyond the financial reporting entity, that have a significant effect on the ability of the financial reporting entity to create value – c.f. Section 3 (“Guiding Principles”);
- reporting dependencies and trade-offs between factors that can affect an entity's ability to create value over time, such as the Framework's six “capitals” – c.f. Section 3 (“Guiding Principles”) and Section 5 (“General Reporting Guidance”);
- considering the external environment and potential implications for an entity's ability to create value in the short, medium and long-term – c.f. Section 4 (“Content Elements”); and



- reporting key performance indicators to demonstrate the connectivity of financial performance and performance regarding other “capitals” – c.f. Section 4 (“Content Elements”).

(iii) Any output on integration in reporting must be compatible with existing and future IASB materials, including but not limited to outputs of the following IASB 2022-2026 work plan projects:

- Research project pipeline – review of IAS 38 on intangible assets and statement of cash flows.
- Maintenance project pipeline – investigating whether guidance is needed on capturing the effects of climate-related matters on financial statements.<sup>40</sup>
- Reserve list of projects – operating segments and pollutant pricing mechanisms.

Finally, to facilitate global adoption it will be important to ensure that any guidance resulting from this project contains high-level, principle-based expectations that are applicable to both IFRS Accounting Standards and other relevant GAAP.

#### (d) Do you have any other suggestions for the ISSB if it pursues the project?

The PRI recommends that a project on integration in reporting should look to address all the issues noted in our response to Question 3.

**In particular, the project should provide entities with guidance on calculating and reporting in the management accounts, the expected financial implications of sustainability-related risks and opportunities** – as is currently required within IFRS S1 and IFRS S2 – whether through effects on investment plans, sources of funding or other specific line items that appear in the financial statements.

Ideally the outputs of the research project would include:

- commentary on effects that companies should consider, agnostic of specific sustainability issues;
- guidance on the boundaries of reporting on sustainability-related financial information in the management accounts;
- guidance on appropriately linking this information to an entity’s sustainability impacts; and
- guidance on describing interconnections, including aggregating sustainability risks and opportunities (e.g., from different sustainability issues) and reporting on how trade-offs and interactions across various issues cumulatively affect the business’ financial performance, position and cash flow.

Finally, we acknowledge that the two phases would be issue-agnostic and (as noted above) principles-based; with the potential for issue-specific case studies and guidance either developed in the future, or developed under the scope of other activities of the ISSB (e.g. new standards or enhancements to current standards). Issue specific material will provide companies with practical steer to implement the guidance on integration, but we recognise that issue-specific reporting standards are ultimately needed to operationalise this for each sustainability issue.

<sup>40</sup> Outlined within the [IFRS Foundation work plan – Climate-related Risks in the Financial Statements](#).



## 8. OTHER COMMENTS

### a. Do you have any other comments on the ISSB's activities and work plan?

The PRI has no further comments on the ISSB's activities and work plan.