

Introducing the Taskforce on Inequality and Social-related Financial Disclosures

The new *Taskforce on Inequality and Social-related Financial Disclosures (TISFD)* aims to address the systemic risk posed by inequality through developing a global framework for managing social risks and opportunities. In this write-up of a recent P4P event, we explore *TISFD's* vision to foster stronger, more equitable societies, by integrating existing standards to provide a cohesive disclosure process for companies and investors, focusing on the economic and financial implications of inequality

By Constance Johnson



Markets depend on a stable and functioning society to operate effectively. Inequality poses a systemic risk to the economy, potentially undermining societal stability and institutional trust. The *Taskforce on Inequality and Social-related Financial Disclosures* will launch in September, and will address social issues by creating a global framework for reporting and managing risks, opportunities, impacts and dependencies related to inequality. The framework aims to seamlessly integrate existing standards into a common disclosure process.



Charlotte O'Leary, CEO of *Pensions for Purpose*, invited some members of the *TISFD Working Group* including the *Centre on Well-being, Inclusion, Sustainability and Equal Opportunity (WISE)* at the *Organisation for Economic Co-operation*

and Development (OECD), and the *Predistribution Initiative (PDI)*, and the interim executive director of the *TISFD* to introduce the *Taskforce*.

Understanding the systemic impact of inequality on investment portfolios



Delilah Rothenberg, Co-founder and Executive Director of the *PDI* introduced the history of the *Taskforce*, explaining it was initiated for investors looking for information on topics such as essential workers, racial equity and vaccine equity. While there are many frameworks to evaluate social issues and investments, they are fragmented. Delilah referred to the *Global Reporting Initiative (GRI)* for impact mentality, and *International Sustainability Standards Board (ISSB)* for single financial materially, further explaining how investors are looking for a cohesive framework.

The concept of universal ownership is gaining

traction, as large investors are exposed to all industries, geographies and asset classes, making it difficult for them to diversify and reduce systemic risks. There is a growing interest in understanding how inequality and social risks systematically manifest and affect investment portfolios. Socio-economic inequality is increasingly seen as a barrier to the progress of climate solutions.

There is also a concerning rise in populism, which could lead to domestic conflict, protectionism and geopolitical strife, contributing to systemic risk. Inequality has been linked to secular stagnation, where the wealthy show a lower propensity to spend compared to the less well-off, which could lead to economic stagnation, asset bubbles and credit crises.

The Taskforce's vision

TISFD aims to conduct research to elucidate how inequality contributes to systemic risks and what the private sector can do to mitigate these risks. It envisions an economic and financial system where companies

and investors effectively address inequality and related social risks, leading to stronger, more equitable societies and economies.

A diverse working group has been set up to launch the *Taskforce*, with representatives from communities, workers, civil society, investors, companies and international organisations. Together, these stakeholders aim to create an inclusive governance structure and define the scope and mandate of the *Taskforce*, with representation from different geographies and backgrounds. The development of the governance structure will follow a similarly inclusive approach.

Proposed scope and mandate



Vincent Siegerink, *Economic Policy Analyst* at *OECD's WISE Centre*, presented the social issues the global framework is expected to address. The new initiative will recommend ways for companies and investors to disclose their inequality and





All-member event blog

social related impacts, dependencies, risks and opportunities. It will evidence the connections between these impacts, risks and opportunities, recognising many stem from how companies and investors influence society. The framework will guide users on how to implement disclosure practices, design indicators and metrics, and use thresholds and targets. Additionally, it will serve as an educational and capacity-building resource for a range of stakeholders, including affected rights-holders, to develop understanding around how *TISFD* works in practice and how associated disclosures can be used.

Impact of the framework

TISFD will aim to give companies and investors a deeper understanding of their impacts on people, identifying, measuring and disclosing these effects along with the related financial risks and opportunities more efficiently.

Investors are already encouraged to recognise inequality as a system-level risk, to understand the aggregate impact of their activities on inequalities, and to integrate this understanding into capital allocation, engagement with investees and investment structuring. Standard-setters and policymakers should embed *TISFD* recommendations into reporting standards, laws and regulations to foster global harmonisation and reduce reporting burden for companies.

The approach emphasises the alignment between the *Taskforce on Climate-related Financial Disclosures (TCFD)* and the *Taskforce on Nature-related Financial Disclosures (TNFD)* for holistic reporting, the integration of existing frameworks and standards to address gaps, and the development of disclosure recommendations that consider both impact and financial materiality. The *TISFD* also calls for a comprehensive understanding of inequality and social concepts, prioritising disclosure recommendations, so users can respond effectively to social and inequality-related risks and opportunities.

Governance structure of the *TISFD*

Delilah presented the principles of inclusivity, co-creation, effective decision-making, learning and transparency. The proposed structure of the *Taskforce* includes diverse working groups, which represent emerging markets, developing economies, least

developed countries, small island developing states, and avoid the biases of wealthier global north entities. This approach emphasises intentional, collaborative decision-making, as opposed to traditional feedback processes; balancing inclusivity with efficient decision-making, while learning from existing standards and their own initiatives. Transparency will be maintained by clearly communicating decisions and having a grievance procedure for stakeholders.

Questions and answers

Q How do you encourage people to take fitting action?

A Delilah Rothenberg:

To persuade people to take action, it is essential to focus on the roots of inequality and social risk disclosure in the private sector. While disclosure may be perceived as a formality, it is actually crucial given it provides measurable data companies and investors can use to identify the areas where they need to change practices to reduce risks, leading to more informed decisions. Moreover, motivations – ranging from financial materiality to system-level impact – serve as incentives for action once one comprehends the factors contributing to risks. Consequently, effective disclosure is key to promoting meaningful actions aimed at mitigating inequality and social risk.

Q What impact and risk-related inequality may a bank need to disclose?

A Delilah Rothenberg:

Banks have many opportunities to understand and communicate their capabilities and limitations; for example, in lending to small and medium-sized enterprises, addressing executive compensation, financing sustainable development activities and exploring alternative uses of credit scores to reduce biases. Engaging with policymakers and regulators can reduce inequality and create a level playing field in the private sector. *PDI* is investigating the relationship between inequality and price stability; the connection between the two may be stronger than the link between employment and price stability.

Q What will the relationship be between this Taskforce and the Corporate Sustainability Reporting Directive (CSRD)?

A Vincent Siegerink:

Many companies and investors are struggling to understand how double materiality works in practice and how to implement it. This *Taskforce* will learn from the first round of reporting on the *CSRD* and



integrate those lessons for companies and investors. It will also witness the unfolding *CSRD* experiment. *TISFD* is positioned similarly to *CSRD*, as a global framework, harmonising disclosures and recognising *European Sustainability Reporting Standards* are primarily applicable to companies and investors operating in Europe. There are areas of inequality where the *Taskforce* can make specific recommendations, by providing metrics and indicators for users to identify specific impact and risks, and there is the opportunity for the *Taskforce* to feed into the evolution of the *SRS* in future.

Q How will local nuances in inequality and social issues be addressed?

A Delilah Rothenberg:

The *Taskforce* intends to develop regional hubs and tailor guidance to address geographical and cultural differences. These centres will encourage policy makers and regulators to work in unison. The *Taskforce's* inclusive membership will be responsible for fostering these relationships, building a consensus among diverse stakeholders. This approach will help in setting appropriate regional targets and thresholds, ensuring an effective framework



“Our vision for the task force is an economic and financial system in which companies and investors effectively address their inequality and social-related risks.”

DELILAH ROTHENBERG



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Feedback from the audience: breakout rooms

Each group discussed the proposed layout of *TISFD*'s governance structure and approach, and how it can engage with the investment community, answering two questions: **What are your reactions to the scope and approach we've laid out? What do you see as the greatest value of *TISFD* for your organisation?**

Group one – moderated by Micheal Bushnell of Cardano

This dialogue highlighted the challenge of balancing diverse views on social risk and inequality, globally and across different sectors. The need for a focused approach was stressed. Points raised included the impact of different asset classes on perspectives and reporting requirements, and the impact *TISFD* could have. The governance structure was broadly seen as positive but there would need to be effective disclosure externally on its maintenance and how it links to existing frameworks to retain and maximise the value progress already made. A recurring theme was the importance of showing material improvements over time, ensuring guidance supports and benefits on-going development.

Group two – moderated by Bill Manahan of Downing

A question was asked about how prescriptive this framework will be, with the answer that the framework is still at a conceptual stage; social issues appear to be less prescriptive compared to other regulatory areas like climate policy. Intellectual robustness will be a critical factor, with a balance between the involvement of highly capable individuals and sufficient resourcing needed to

drive the project forward. The group also acknowledged the global North's inclination towards radical initiatives, reflecting their economic conditions, while recognising emerging markets have different priorities and sensitivities. The transition required for this framework would rely heavily on outputs from these developing regions, necessitating a collaborative approach. The framework's success will hinge on aligning the diverse priorities of developed and developing nations, leveraging their unique contributions for a cohesive global strategy.

Group three – moderated by Doug Anderson of Federated Hermes Limited

This group considered the growing sentiment of environmental, social and governance overload within the pension fund asset owner space, driven by the extensive disclosure requirements that leave little time for actional measures. A proposed solution is to adopt a framework similar to the governance structures of *TCFD* which could alleviate the reporting burden. Despite the persistent issues of social inequality, this framework could potentially help address and mitigate such challenges. Additionally, there is hope it will provide a means to engage more effectively with governance, an area currently lacking substantial interactions. Historically, governments have looked to companies for best practices in implementing changes; improved governance engagement through this

framework could enhance overall efficacy.

Group four – moderated by Simon Males of Tikehau Capital

This group felt the proposed framework holds promise on multiple fronts. Firstly, it aims to simplify processes for companies and investors, facilitating better recognition, measurement and adoption of ESG factors to benefit their business strategies. Secondly, by alleviating the reporting burden, it encourages corporate transparency, thereby fostering stronger engagement with stakeholders and enabling informed decision-making. Lastly, the ultimate ambition of integrating diverse frameworks into a single global standard promises to streamline reporting practices across sectors and regions, promoting consistency and comprehensive societal engagement. This holistic approach not only supports sustainable business practices but also aligns stakeholders towards collective environmental and social objectives, ensuring long-term benefits for all involved.



Do you know which organisations are already signed up to the working group?

Delilah Rothenberg:

The current working group will transition to a steering committee, with 25-30 members from various sectors. Co-chairs and an executive director will be appointed, who form a balanced nominating committee representing 25-30 steering committee members. The members of these working groups will be drawn from the steering committee and the broader alliance to ensure global expertise is garnered.

Next steps and how to engage



Kate Tallant Meier of *TISFD* concluded the session by outlining the steps for launching the initiative. In June, the focus was on gathering feedback on the proposed *TISFD* scope, mandate and governance. In late July, two sessions, which are open to everyone, will delve into the governance structure. Then, in August, the *TISFD* scope will be revised in accordance with the feedback, governance and mandate propositions, before the launch in September.

You can become an early supporter of *TISFD*, helping to raise awareness and building momentum: [contact TISFD](#). To provide technical input to help shape the scope, mandate and governance of *TISFD* complete the [feedback form](#). Find out more on the [TISFD website](#).

Join Pensions for Purpose

This event was open to all our members. If your organisation is not a member of Pensions for Purpose you can attend an event before deciding to join. [See our future events](#). If your firm would like more information on *Pensions for Purpose* membership or you have colleagues who would like to sign up to attend an event, please email [Stephen Darlington](#).

More information on this topic?

Email [Karen Shackleton](#) or [Bruna Bauer](#) for a conversation.

[Click here to watch the event video and synopsis.](#)

● **Constance Johnson is an Intern at Pensions for Purpose**



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