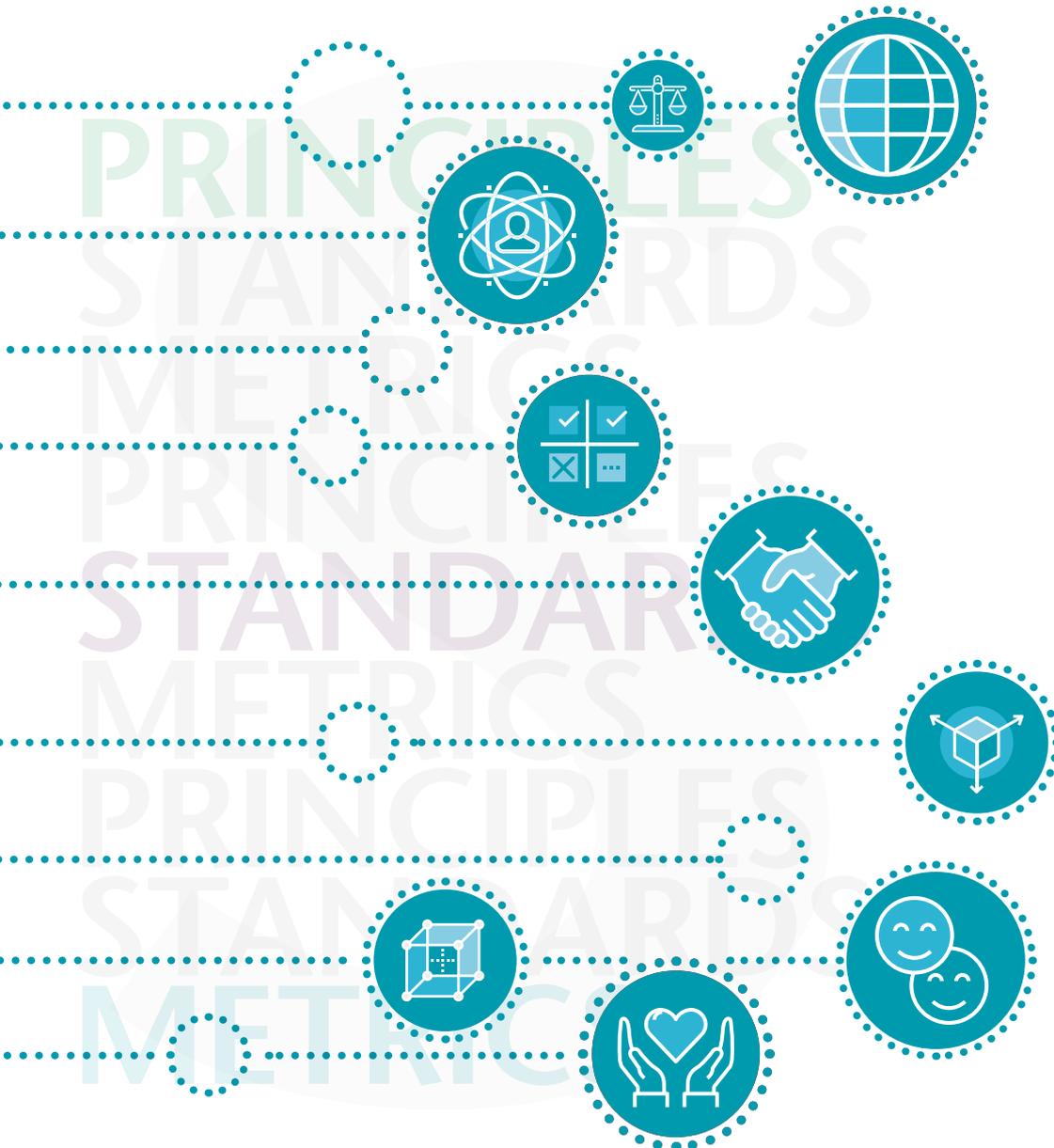


Accelerating the S in ESG – a roadmap for global progress on social standards

A report by the International Regulatory Strategy Group in association with KPMG



About the IRSG

The International Regulatory Strategy Group (IRSG) is a practitioner-led group comprising senior leaders from across the UK-based financial and related professional services industry. It is one of the leading cross-sectoral groups in Europe for the industry to discuss and act upon regulatory developments.

With an overall goal of promoting sustainable economic growth, the IRSG seeks to identify opportunities for engagement with governments, regulators and European and international institutions to advocate for an international framework that will facilitate open and competitive capital markets globally. Its role includes identifying strategic level issues where a cross-sectoral position can add value to existing views.

About KPMG

KPMG IMPACT¹ brings together an experienced network of professionals from across the globe to deliver industry leading practices, research and trusted client solutions to address the biggest issues facing our planet, having a real and positive impact today and for our collective future. We aim to deliver growth with purpose. We unite the best of KPMG to help our clients fulfil their purpose and deliver against the Sustainable Development Goals ('SDGs'), so all our communities can thrive and prosper.

Throughout our 150-year history, KPMG in the UK has played a role supporting the economic, social and environmental health of the UK. That is evident in everything we do – for our people, our clients and the communities in which we live and work.

KPMG in the UK is committed to playing its part in strengthening opportunity for all across the country – as a major regional employer with over 16,000 employees and as a trusted adviser to our extensive network of local clients (21 offices across UK and over 40% of our workforce being outside the capital etc).

We have held a top-3 ranking in the Social Mobility Employer Index and are a Cornerstone Employer in four opportunity and cold spot areas such as Norwich, East Cambridgeshire and Fenland, Oldham and the Black Country. As a firm², we help our clients navigate their biggest issues and opportunities. We aim to be universally recognised as a great place for great people to do their best work – a firm known for our collaborative and inclusive culture. We have big ambitions and the right strategy to help us meet those ambitions. Most trusted by our clients, our people, our regulators and the markets and communities we work in. And we will take pride in driving lasting, positive change in society.

1 KPMG Impact, Available at: <https://home.kpmg/xx/en/home/insights/2020/06/kpmg-impact.html>

2 KPMG Corporate Responsibility Available at: <https://home.kpmg/uk/en/home/about/our-corporate-responsibility.html>

TheCityUK and the City of London Corporation co-sponsor the IRSG.



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1 FOREWORD

Interest in how the private sector considers ESG issues continues to grow as customers, investors, and civil society groups demand both more transparency on how the corporate world impacts on society and more action to ensure those impacts are positive. Companies – often guided by public policy - have made real progress in achieving a better understanding of environmental impact and governance standards and in ensuring those standards are met.

But social factors have not been given the same attention — until now. The unequal impact of the COVID-19 pandemic, the Black Lives Matter protests and the #MeToo movement have each been powerful recent drivers for this increased recognition of the need for social change and of the important contribution that business has to make. Social issues are now among the most pressing for companies in all markets as stakeholders, both internal and external, seek to understand how the firm they work for, buy from, or invest in is treating the people whose lives its operations touch.

One major challenge that all these stakeholders face is how complex it can be to capture the ‘S’ in ESG; how much more difficult it can be to define and quantify than certain ‘E’ and ‘G’ factors; and how far the lack of consistency and comparability in approaches risks impeding the drive towards more socially sustainable business activity and investing.

As United Nations Principles for Responsible Investment have put it, “The social element of ESG issues can be the most difficult for investors to assess. Unlike environmental and governance issues, which are more easily defined, have an established track record of market data, and are often accompanied by robust regulation, social issues are less tangible, with less mature data to show how they can impact a company’s performance.”

But this difficulty is one that the financial services industry believes we can and must overcome. And it is in response to this need to act that the IRSG, in partnership with KPMG, has undertaken this work. By identifying the key market trends that have brought social issues to the fore, investigating the leading measurement frameworks and principles that already exist, and acquiring insight from interviews with financial institutions and global standard setters, this report highlights the shared challenges we need to address to ensure further progress. It also makes recommendations for how public policy, companies and financial markets participants can collaborate to drive more socially sustainable investment.

This report has been made possible by the insights we received from across the industry and stakeholders. I would like to thank Alexandra Skeggs, Marija Devic, Joe Crotty and the rest of the team at KPMG for their work with the IRSG in producing this timely contribution on an important issue for the industry.



Michael Collins
Director of Government Affairs,
M&G plc and Chair of the
IRSG ESG workstream

“Social issues are less tangible, with less mature data to show how they can impact a company’s performance.”

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1 EXECUTIVE SUMMARY

1.1 Background

Environmental, Social and Governance (ESG) factors have become a critical consideration for businesses, investors, and shareholders across all sectors of the economy. Stakeholders, not least owners and providers of capital, are demanding more clarity on how those factors impact business models and long-term profitability, and on the social purpose that businesses pursue.

The pandemic has further fuelled the focus on ESG, and in particular forced greater attention on social factors. COVID-19 forced working and living practices to change and has highlighted – and exacerbated – longstanding social issues. The coincidence of the ‘Black Lives Matter’³ campaign with the first phase of the virus only increased the emphasis on the ‘S’ of ESG.

But this shift in focus and attention can be hard to execute or make tangible, a task that only gets harder the further from the company’s own activities and practices one looks. The challenge for financial and professional services firms can be particularly acute as they seek to engage with thousands of companies, each of which in turn may have complex supply chains, multi-site operations, and the potential to touch the lives of many millions of people.

The “S” component of ESG – socially sustainable finance – is broad and can be difficult to define. It has to be both external and internal as a firm’s policies and procedures, products and services, affect not only its employees but also broader society, working through customers, clients and suppliers.

The influence of the financial services sector on social outcomes and impact goes far beyond those activities that are explicitly identified as social impact investing: it incorporates, for example, financial inclusion and financial education; the use and security of data; fraud; the effects of mis-selling or the offer of products and services that do not meet particular customers’ needs; as well as procurement and supply chain practices.

The sector can have a regional or global reach, with the largest organisations serving customers globally through a large, diverse, multi-country, employee base. As such, this sector plays a dual role in social impact: first, that resulting from its own behaviours and practices; and second from the behaviour and practices it facilitates, through the access it provides to capital and to financial services more broadly.

“COVID-19 forced working and living practices to change and has highlighted – and exacerbated – longstanding social issues.”



³ Mina Reinckenson, Investing in a Better Future: ESG and Black Lives Matter, Jun 25, 2020, Available at: <https://www.bcgbenefits.com/blog/esg-and-blm>

It is in recognition of both the growing importance to the sector of the social dimension to sustainable finance and of the need for appropriate public policy intervention that the IRSG embarked on this piece of work.

The aims of this report are to:

- Make recommendations as to how public policy, companies and financial markets participants can all work to achieve better social standards.
- Identify key market trends that have brought social issues to the forefront and highlight the growing impact of socially sustainable business.
- Discuss the challenges which are holding back progress, including the lack of consistency in the different methods for measuring, managing and reporting social impacts.
- Provide clarity on some leading measurement frameworks and principles and consider how these can be used to effect change.
- Develop insight from interviews with financial institutions and global standard setters, in recommending how to measure and adhere to principles and frameworks.

The report contains information gathered from research conducted and 10 interviews with international standard setters and other institutional bodies selected by the IRSG ESG Workstream. A series of roundtable discussions with members of the IRSG ESG Workstream group was undertaken to develop their views, on which the report is based. The content of the report encapsulates the insights and recommendations of the IRSG ESG Workstream.

1.2 Definition of principles, standards and metrics

A social principle is a principle that explains how the wellbeing of a community or society depends on the personal contribution of each member or an organisation, including their degree of ownership and participation.⁴

Social standards are a set of accepted criteria for companies to comply with (usually accepted as a norm or average) in the social space.

Social metrics are a set of quantifying instruments to measure whether the standards are achieved.

(An example of a social principle might be 'Female Economic Empowerment'. In order to capture this a possible metric would be the number of women on the board of directors. A standard could be a formal requirement for the proportion of female directors on the board of any company above a certain size).



⁴ Rudolf Steiner on Citizens Income, 2007, Available at: <http://www.threefolding.org/essays/2007-04-100.html>

1.3 Findings and recommendations

Summary of key market trends

- **Environmental as a force-multiplier of Social:** Whilst there is a clear link between the environmental and social impacts that businesses can have, the financial or market implications of environmental impacts often appear to have a higher priority than the social, even where the same underlying activity is the cause of both. The focus on climate change is now raising awareness of how social outcomes and environmental factors are linked and of the danger of creating positive feedback loops.
- **Government:** It is now accepted in most jurisdictions that ‘the state’ has a role to play in achieving social outcomes. Governments have various mechanisms available to them beyond introducing hard law to incentivise responsible business practice, including tax incentives for responsible conduct, improved access to financing for businesses tackling social issues, and improved trade facilitation for socially responsible businesses.
- **Financial regulation:** In the financial services sector specifically, regulation is already being used to drive financial firms’ ESG behaviour, with an initial emphasis on the environmental component now complemented by a growing interest in the social.
- **Increased voluntary disclosures:** Firms make numerous voluntary disclosures, often in accordance with frameworks and objectives set by non-state parties. Voluntary disclosure regimes have much to commend them and may be able to substitute for formal regulatory requirements in some circumstances. But if ‘the market’ is not able to coalesce around an appropriate set of such voluntary regimes, there are the risks of fragmentation, of higher-than-necessary compliance costs, and that the impacts captured by such disclosure are not necessarily those in which broader society has most interest.
- **Increasing awareness and changing customer preferences:** Social issues have become central to the reputation of companies working across all sectors. The growth of technology-enabled forms of oversight has occurred alongside growing consumer expectations of the sustainability and ethical integrity of the brands they patronise. Customers are willing to pay more to ethical retailers⁵ and consumers’ trust in a brand and their loyalty to it is being linked to purposeful business practice.⁶
- **The growth of the sustainable finance market:** The focus on sustainable finance is now driving significant changes in the financial services sector, not least the creation of specific ESG products to meet the demand from sustainability-oriented customers. ESG focused markets are thriving and demand for new ESG focused financial instruments has continued to increase. As stakeholder interest in the financial services sector’s contribution to the social dimension develops further, the need for a coherent policy framework that facilitates this will only increase.



“Whilst there is a clear link between the environmental and social impacts that businesses can have, the financial or market implications of environmental impacts often appear to have a higher priority than the social.”

⁵ KPMG. 2020. Me, my life, my wallet. Available at: <https://home.kpmg/xx/en/home/campaigns/2018/09/me-my-life-my-wallet.html>

⁶ Edelman, 2020. Trust Barometer Special Report: Brand Trust and The Coronavirus Pandemic. Available at: <https://www.edelman.com/research/covid-19-brand-trust-report>

Summary of key challenges

- **Volume and inconsistency of frameworks and measurements:** The volume of frameworks available to companies creates a challenge for all stakeholders. Without common frameworks it is difficult for analysts to compare the performance of two companies, for regulators to develop standards, and for shareholders and other stakeholders to hold companies to account. The lack of comparability of businesses as a result of the volume and inconsistency of frameworks prevents efficient market behaviour and creates a case for a single coherent set of principles and standards.
- **Lack of global consensus:** There is no consistent global consensus on what social outcomes should be prioritised and how the implementation of shared social objectives like the SDGs should be achieved. This reflects in part how difficult it is to achieve a global consensus on both objectives and implementation whilst respecting cultural preferences or norms and accommodating particular issues affecting individual countries.
- **‘Social washing’:** Social washing risks being a greater issue for investors than green washing. Social issues are often considered qualitatively, in contrast to the quantitative approach taken for many environmental issues (e.g. greenhouse gas emissions). As social data are more likely to be qualitative, there can be a risk of data inconsistency or inadequacy, exposing investors to unseen reputational (or other) risks.
- **ESG ratings and technology:** The volume and inconsistency of ESG reporting creates challenges for stakeholders to compare companies. As data concerning social issues is frequently qualitative, it is significantly more difficult for ESG rating agencies to provide reliable ESG ratings for investors. Significant discrepancies can be noted in the ESG ratings that agencies deliver for the same company. As such, investors may feel less able to rely on ESG ratings for social issues and compelled to continue to perform their own assessments to satisfy their due diligence requirements.
- **Interaction with other areas of ESG:** Environmental issues have begun to separate from social and governance issues, with the emergence of environmental focused initiatives and standard. Pressure from investors can also be louder in the environmental space than in the social. If environmental issues and social issues continue to separate, with more progress seen in the environmental space, momentum towards achieving coherence on social principles and standards may slow.
- **Social impact vs economic returns:** Whilst social principles and standards should not be designed with the intention of increasing profitability, they should promote positive developments in responsible business practices and act as a risk mitigation mechanism. Any belief that delivering social impact is at odds with economic returns would present a significant challenge as it may prevent capital flowing towards ESG focused markets, slowing momentum towards achieving a coherent set of social principles and standards.
- **Government interventions:** Government has a key role to play in driving socially sustainable practices, whether through legislation, the tax system or other interventions. But such direct measures are, while necessary, unlikely to be sufficient to ensure the achievement of every desired social outcome. And during times of severe economic stress – such as during a pandemic – governments may also face pressures to remove some of those measures in the name of growth and jobs.

“The lack of comparability of businesses as a result of the volume and inconsistency of frameworks prevents efficient market behaviour and creates a case for a single coherent set of principles and standards.”



Summary of recommendations

1. Coherence: pursue global consensus on social principles

Global consistency and coherence in how social policy outcomes are integrated into sustainable finance is a priority. A global approach will ensure better overall outcomes and enable the comparability that is essential for accountability. It will also avoid the creation of fragmented, overlapping and incompatible national or regional systems that lead to inefficiency and needless red tape, as well as increased costs for financial services providers and users.

A global consensus needs to be achieved first on principles i.e. those social policy outcomes that, across the world, are the priority issues for the financial services industry to contribute to or to factor into its operations.

For each of these principles, agreement should then be found on a set of common metrics. Policymakers should agree on which data points provide the best way to capture those social principles that the financial

services sector (with input from investee companies) are expected to contribute to, so that all stakeholders have a shared understanding. A common approach to data and metrics (ideally underpinned by agreed frameworks for collection and reporting) will allow comparable baselines to be established and progress to be measured both at the micro level and – when aggregated – globally.

With consensus on the principles and the metrics we would hope to see policymakers move towards the adoption of common standards i.e. the articulation of the concrete deliverable that the financial services industry (and by extension others with whom it works) should achieve.

Target recipient for recommendation 1:
Financial Stability Board, IOSCO, new IFRS Foundation Sustainability Standards Board

2. Minimum standards should be defined for social issues

Once an over-arching set of global social principles and accompanying metrics are agreed, the focus should be directed to developing global social standards. A ‘floor approach’ is one way to start this process, with regulators at the global level agreeing minimum standards that would be applicable in all cases and in all transactions. These minimum standards should not

be static with mechanisms put in place to uplift these minimum standards as required.

Target recipient for recommendation 2:
Financial Stability Board, IOSCO, new IFRS Foundation Sustainability Standards Board

3. A single social principle needs to be championed to drive momentum

A lead social principle should be chosen to prioritise and narrow focus in order to build a powerful momentum, find common ground across jurisdictions and drive wider social transformation. This would benefit from being combined with regulation and public support from a respected flagbearer, in a similar manner that TCFD regulation in the UK and support from Mark Carney is driving change in climate and decarbonisation.

The IRSG recommends that modern slavery would be an appropriate lead principle. Its pervasiveness (it is an issue that affects economies of all sizes and at all stages of development) and the existence of significant existing work on which to draw would make this a strong candidate.

Target recipient for recommendation 3:
Financial Stability Board, IOSCO, new IFRS Foundation Sustainability Standards Board

Summary of recommendations, continued...

4. Principles and standards must be defined at an appropriate level of granularity

The social principles and standards for sustainable finance set by global financial policymakers should be set at a level of detail that will satisfy a number of criteria. They need to be:

— of sufficient **detail** that they will prevent those businesses using them from merely ‘ticking a box’ without actually confronting the underlying social issue;

— **broad** enough to be relevant and applicable to a financial services industry that performs a range of different functions and roles across a diverse base of products and clients; specific sector-level guidance to facilitate comparability may be needed;

— **enduring** (so that firms can be confident in building the systems to capture and disclose data and in using the principles and standards in their decision-making) yet designed to increase ambition overtime as a fundamental part of their mechanism.

Target recipient for recommendation 4:

Financial Stability Board, IOSCO, new IFRS Foundation Sustainability Standards Board, SASB, GRI

5. Using legislation creatively to drive socially sustainable finance

Regulation needs to learn the lessons of the past and to be creative, seeking to encourage voluntary efforts (including by the financial sector) by incentivising progressive improvement rather than relying on the addition of further criminal offences, many of which cannot be enforced in practice.

There is a strong case for progressive legislation: i.e. using regulation creatively and in tandem with other tools to drive improvement in social outcomes. An example of a progressive approach can be to link benchmark adherence to social standards as a prerequisite for tax relief, access to finance or green bond issuance to investors.

Public policy has a key role, ranging from a convening power (to bring different stakeholders together to define common voluntary solutions), through endorsement and amplification of common voluntary standards, to – ultimately – the establishment of binding legal requirements, for example on the data that issuers must provide.

Target recipient for recommendation 5:

all legislative and rule-making bodies



“There is a strong case for progressive legislation: i.e. using regulation creatively and in tandem with other tools to drive improvement in social outcomes.”

Summary of recommendations, continued...

6. Financial institutions can lead the way on the social component of sustainable finance

Financial services firms have a responsibility to engage with and to promote the achievement of social outcomes. Large banks and financial institutions should act as a catalyst of change by applying consistent standards across all jurisdictions they operate in to raise social standards. Firms should use the levers available to them to engage and promote best practice across their own activities, their supply chains and in the business they facilitate.

For example, buy-side firms can contribute to efforts to eradicate modern slavery through incorporating human rights and modern slavery into their investment due diligence and through their engagement and active ownership with investee companies.

But while all of this can be done by financial services firms, a global framework of principles, data and metrics, and standards is still needed to both achieve better social outcomes and to encourage global markets.

Target recipient for recommendation 6:
CEOs of financial services firms

7. Call to action: Momentum must be built quickly to drive social change

To achieve the recommendations set out in this report, momentum for socially sustainable finance needs to be built. This should come from the financial services industry itself and global policymakers. As set out in recommendation 3 we believe that an ambassador should be appointed to lead this agenda, starting with modern slavery – given the value of this issue and of having a clear point of initial focus – but over time promoting socially sustainable finance more broadly.

Socially sustainable finance is not an alternative to delivering climate finance, or to green finance more broadly, but rather an obvious complement to it.

The G7 Summit in Cornwall; the G20 Summit in Rome; and COP26 in Glasgow, all provide opportunities for the international community to identify socially sustainable finance as a priority and to appoint an ambassador to lead this work.

Target recipient for recommendation 7:
UK G7 Presidency; Italy G20 President



“Large banks and financial institutions should act as a catalyst of change by applying consistent standards across all jurisdictions they operate in to raise social standards.”

2 STATE OF THE MARKET

2.1. Market trends

2.1.1. Environmental as a force-multiplier of social

That there is a link between the environmental and social impacts that businesses can have is easily demonstrated: deforestation in the Amazon hurts local indigenous communities⁷; air pollution from road transportation or industrial processes causes asthma in children living in poorer communities; climate change will have more devastating consequences in lower-income countries with high rates of poverty and less developed infrastructure⁸.

But the financial or market implications of environmental impacts often appear to have a higher priority than the social, even where the same underlying activity is the cause of both. Environmental disclosure regimes have developed (including through regulation) to help companies report these risks and impacts. Even if financial markets remain aware of the potential reputational damage that social risks can have on a business' brand value (increasingly important as intangible assets make up more than 80% of total assets in the S&P 500 index⁹) the social dimension remains comparatively under-developed.

The focus on climate change is now raising awareness of how social outcomes and environmental factors are linked and of the danger of creating positive feedback loops. This sort of systems thinking needs to be embedded in sustainable finance so that the professional and financial services sector can fully understand (and price) the overall impact of the activities and practices it is facilitating.

2.1.2 Government

It is now accepted in most jurisdictions that 'the state' has a role to play in achieving social outcomes. That comes in part from the state delivering social goods (e.g. providing education, healthcare) directly, but also from the role of government in setting the expectations and norms for how businesses (and other actors) should contribute to achieving social outcomes.

“The financial or market implications of environmental impacts often appear to have a higher priority than the social, even where the same underlying activity is the cause of both.”



⁷ The Pachamama Alliance. n.d. Effects of Deforestation. Available at: <https://www.pachamama.org/effects-of-deforestation#:~:text=The%20loss%20of%20trees%20and,of%20problems%20for%20indigenous%20people>

⁸ Ayebe-Karlsson, S., McMichael, C., Kelman, I. and Dasgupta, S., 2020. The impact of rising sea levels on mass migration. World Economic Forum. Available at: <https://www.weforum.org/agenda/2020/09/migration-sea-levels-climate-change-ocean-environment-people-movement>

⁹ Ponemon Institute LLC and Aon Plc, 2019. 2019 Intangible Assets Financial Statement Impact Comparison Report. Available at: <https://www.aon.com/unitedkingdom/insights/2019-EMEA-Ponemon-Intangible-Assets-Report.jsp>

The UK Government has a long history of tackling social issues in the workplace, notably with the Equal Pay Act 1970. In 2015, the UK Government introduced the Modern Slavery Act 2015 ('MSA'), requiring businesses over a certain size to disclose each year what action they have taken to ensure there is no modern slavery in their business or supply chains. In 2016, the UK Government launched the Hampton-Alexander Review, an independent, voluntary and business-led initiative supported to increase the representation of women in senior leadership positions and on boards of FTSE 350 Companies.¹⁰ In 2017, the UK Government brought the 'Equality Act 2010 (Gender Pay Gap Information) Regulations 2017' into force (building on the Equality Act 2010), requiring all private and voluntary-sector employers with 250 or more employees to publish data on their gender pay gap.



Looking to other markets, in September 2020, AB 979 (2020) was signed into law in California, which will require, no later than by the close of 2021, that any listed company with "principal executive offices" in California, regardless of where it is incorporated, must have a minimum of one director from an "underrepresented community", with requirements increasing in subsequent years.¹¹ In the law, a "Director from an underrepresented community" means an individual who self-identifies as Black, African American, Hispanic, Latino, Asian, Pacific Islander, Native American, Native Hawaiian, or Alaska Native, or who self-identifies as gay, lesbian, bisexual, or transgender.



The 2020 law builds on the previous California State law SB 826 (2018) which required listed companies with a principal executive office in California to have a minimum of one female director on its board. This law has been credited as the foundation for policies announced by individual corporations – notably Goldman Sachs, who in February 2020 announced they would no longer underwrite IPOs for companies in the US and Europe if they lack a diverse board member.¹²

Governments globally are also introducing laws to require businesses to employ people with disabilities. In Japan, Government bodies are required by law to ensure at least 2.5% of their workforce consists of people with disabilities; with businesses in Japan then required to meet a quota of 2.2%.¹³ In Brazil, employers have also been legally required to meet a quota that ranges from 2% to 5% depending on company size.¹⁴



The UK Government introduced Social Impact Bonds ('SIBs') in 2012, providing a return to a service provider when an agreed social outcome has been achieved. As of 2020, there are over 30 SIBs in the UK, supporting beneficiaries in areas including youth unemployment, mental health and homelessness.¹⁵ This scheme has expanded into over 25 countries.



¹⁰ <https://www.gov.uk/government/publications/ftse-women-leaders-hampton-alexander-review>

¹¹ AB-979 Corporations: boards of directors: underrepresented communities.

¹² Goldman Sachs, 2020. Goldman Sachs' Commitment to Board Diversity. Available at: <https://www.goldmansachs.com/our-commitments/diversity-and-inclusion/launch-with-gs/pages/commitment-to-diversity.html>

¹³ Disability: IN | Global Directory. 2021. Japan. Available at: <https://private.disabilityin.org/global/japan/>

¹⁴ Disability: IN | Global Directory. 2021. Brazil. Available at: <https://private.disabilityin.org/global/brazil/>

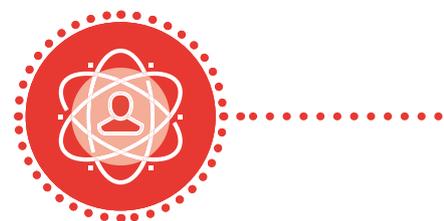
¹⁵ GOV.UK, 2017. A guide to Social Impact Bonds. Available at: <https://www.gov.uk/guidance/social-impact-bonds>

The UK Government has also used the taxation system to drive socially responsible business practice, with one example being the Apprenticeship Levy introduced in 2016. Another example is the Soft Drinks Industry Levy, introduced in 2018, to reduce sugar in soft drinks and tackle childhood obesity. The Government have pledged that “all revenues raised through the levy will directly fund new sports facilities in schools as well as healthy breakfast clubs, ensuring children lead healthier lives”. As an incentive to be socially responsible, only the soft drink manufacturers who do not reformulate will pay the levy.

Governments have various mechanisms available to them beyond introducing new law to incentivise responsible business practice, including tax incentives for responsible conduct, improved access to financing for businesses tackling social issues and improved trade facilitation for socially responsible businesses. It is not a new trend for government to use its power to force businesses to play a direct role, but it is picking up pace.

2.1.3. Financial regulation

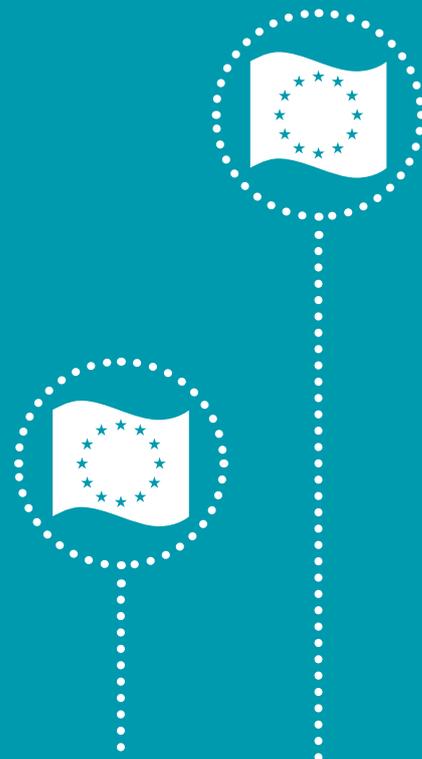
Section 2.1.2 showed that government is interested in pressing businesses in all sectors to contribute to achieving sustainable outcomes, including in relation to social goods. In the financial services sector specifically, regulation is already being used to drive financial firms’ ESG behaviour, with an initial emphasis on the environmental component but now a growing interest in the social.



EU ESG Regulation

The EU Sustainable Finance Disclosure Regulation (‘SFDR’), applying to all asset managers operating in the EU, managers of Undertakings for Collective Investment in Transferable Securities (‘UCITS’) and all forms of Alternative Investment Funds (‘AIFs’), insurance companies that provide insurance-based investment products, occupational pension funds, personal pension providers and financial advisers (that have more than three employees), requires disclosures about whether and how ESG factors are integrated into investment decisions, and by end-2022, whether and how adverse impacts are considered. Importantly, the SFDR characterises a ‘sustainable investment’ as one that contributes to an environmental objective or a social objective (in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities).¹⁶

Social has also been considered within the new EU Taxonomy, ‘a classification system establishing a list of environmentally sustainable economic activities as an important enabler to scale up sustainable investment and to implement the European Green Deal’¹⁷. continued



¹⁶ KPMG, Sustainable Finance – rules, rules and more rules, May 2018. Available at: <https://home.kpmg/xx/en/home/insights/2018/05/sustainable-finance.htm>

¹⁷ European Commission. n.d. EU taxonomy for sustainable activities. Available at: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

By providing appropriate, common definitions for economic activities that can be considered environmentally sustainable, the Taxonomy is intended to create security for investors (e.g. protecting them from the risk of ‘greenwashing’), to drive investment behaviour, and to do so in a way that avoids market fragmentation.

This risk of market fragmentation resulting from competing regulatory approaches is an ever-present feature of prudential and conduct-of-business policy, but the comparative newness and under-development of sustainable finance (particularly socially sustainable finance) provides an opportunity to seek coherence from the outset.

A start has already been made at the EU level where the social has already been incorporated in the EU Taxonomy: compliance with minimum social safeguards are a condition for economic activities to qualify as environmentally sustainable. (The minimum social safeguards for social include alignment with several social frameworks including the UN Guiding Principles on Business and Human Rights, the International Labour Organisation conventions and the International Bill of Human Rights).¹⁸ In 2021, the European Commission will also publish a report describing the provisions required to extend the scope of the EU Taxonomy to cover social objectives.

Regulators have also been increasingly vocal on issues of diversity. In 2015, the SEC and five other federal financial agencies published a standard on the assessment of diversity policies. US regulated entities were asked voluntarily to publish their diversity policies, practices and workforce data.¹⁹

In Ireland, the Governor of the Central Bank of Ireland stated “The Central Bank will continue to place a spotlight on diversity in the financial services sector”, also stating that “Research shows that firms with more diverse leadership teams are likely to be more resilient and more profitable”.²⁰ In the UK, in a speech at an Investment Association event in June 2019, Megan Butler, the executive director of supervision at the Financial Conduct Authority (‘FCA’), threatened not to approve the appointment of white male senior managers if there is not sufficient diversity in a regulated firm’s leadership team.²¹ Nikhil Rathi, CEO at the FCA, noted in a speech at the launch of the HM Treasury Women in Finance Charter Annual Review on March 17 2021 that as part of the FCA’s regulatory work on diversity and inclusion and the listings framework, it will be exploring whether it should make diversity requirements part of our premium listing rules.²²

“Research shows that firms with more diverse leadership teams are likely to be more resilient and more profitable.”



18 Regulation (Eu) 2020/852 Of The European Parliament and of The Council. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852>

19 Available at: <https://www.sec.gov/news/press-release/2018-7>

20 Central Bank of Ireland, 2020. The Central Bank will continue to place a spotlight on diversity in the financial services sector – Governor Gabriel Makhlof. Available at: <https://www.centralbank.ie/news/article/the-central-bank-will-continue-to-place-a-spotlight-on-diversity-in-the-financial-services-sector-governor-gabriel-makhlof>

21 Ignites Europe. 2019. UK regulator threatens to turn down appointments of white men. Available at: https://www.igniteseurope.com/c/2392543/287633/regulator_threatens_turn_down_appointments_white

22 <https://www.fca.org.uk/news/speeches/why-diversity-and-inclusion-are-regulatory-issues>

Regulatory action has not been restricted to European markets. In China, the banking and insurance regulator told financial institutions in January 2020 that they should establish and improve their environmental and social risk management system, incorporating ESG requirements into their credit processes and strengthening the disclosure of ESG information to shareholders.²³ Also, in Brazil, the regulator is set to create a new category of funds under the “Fundo de Investimento em Direitos Creditórios (‘FIDC’)” umbrella specifically for ESG investments.²⁴

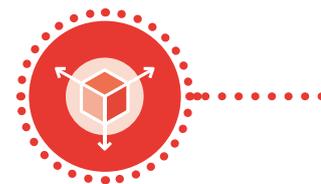
A result for firms, particularly international groups, is that their boards and other management bodies are faced with a growing mesh of ESG-related laws and regulations that require board time, skills and experience. Boards (or their equivalent) have ultimate fiduciary responsibility for the running of entities, including compliance with ESG laws and regulations. The different timing of implementation of measures in different jurisdictions relating to the same subject matter makes it more difficult for boards at both head office and subsidiary level to plan their approach to overseeing and challenging management’s proposals – while a head office is engaging in consultation in one jurisdiction on an ESG matter, a subsidiary in another country might be trying to implement local requirements on the same subject.

There are also instances where several jurisdictions have produced similar (but not quite the same) requirements on a topic that could lead to inefficiencies in application (e.g., the anti-slavery legislation in the UK and Australia). These factors risk boards having to spend a disproportionate amount of time on the granular detail of the ESG matters brought to them, instead of focusing on the oversight and challenge role intended to lead to more robust decision making.

2.1.4 Increased voluntary disclosures

But market fragmentation does not derive solely from competing (and potentially conflicting) requirements and interventions from government; firms also make numerous voluntary disclosures, often in accordance with frameworks and objectives set by non-state parties.

Such voluntary disclosures can have a range of motivations, which the academic literature has explored. One model suggests that companies are voluntarily disclosing in order to minimise the potential political or societal costs. Due to differences in firms’ characteristics, they can face different intensities of external pressures as a function of their stakeholders’ levels of power, legitimacy, and urgency. The decision to voluntarily disclose information on social impact results from the anticipation that the benefits will be greater than the costs (Dye 1985; Verrecchia 1983²⁵).



“Boards and other management bodies are faced with a growing mesh of ESG-related laws and regulations that require board time, skills and experience.”

²³ KPMG, *More regulators pick up the ESG baton*, November 2020. Available at: <https://home.kpmg/xx/en/home/insights/2020/11/more-regulators-pick-up-the-esg-baton.html>

²⁴ Available at: <https://www.capitalreset.com/cvm-vai-definir-quais-fundos-de-credito-podem-carregar-rotulo-esg/>

²⁵ Ramin Gamerschlag, *Determinants of voluntary CSR disclosure: empirical evidence from Germany*, Available at: <https://link.springer.com/article/10.1007/s11846-010-0052-3>

Other research²⁶ has identified as potential determinants of voluntary disclosure decisions factors including firm size, industry association membership, profitability, the shareholder structure, and the company's relationship with its stakeholders.

Visibility may also play a part: companies constantly in the media spotlight are especially susceptible to political actions, since they attract more attention from stakeholders than less visible companies (Deegan and Carroll 1993; Powell 1991). Visible companies are more affected by social constraints and pressures than those companies that are less visible to the public.

Many of the factors suggested by academic theory – and possibly others not considered by the literature – may be driving the range of sustainability disclosures that businesses, including those in professional and financial services, undertake. Voluntary disclosure regimes have much to commend them and to the extent that 'the market' is able to coalesce around an appropriate set of such regimes they may well be able to substitute for regulatory requirements.

But if this does not happen there are the risks of fragmentation, of higher-than-necessary compliance costs, and that the impacts captured by such disclosure are not necessarily those in which broader society has most interest. Public policy may still have a role to play in addressing these issues.

2.1.5 Increasing awareness and changing customer preferences

The impact of a firm's environmental footprint on the way it is perceived by customers and the wider public is now clearly recognised, as the experience of the oil industry demonstrates.

A similar process is now underway in relation to social factors.

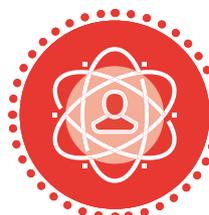
The reputational damage caused by a decision to destroy a historic aboriginal site²⁷ caused one chief executive and other senior executives to resign from the Board of a large global miner; other extractive industry businesses have taken large financial hits following the cancellation of projects due to failures of community relations that have received global coverage²⁸; and the #MeToo and Black Lives Matter movements generated discussion about and implications for companies across all economic sectors.

Social media played a part in the growth and impact of both #MeToo and Black Lives Matter and these platforms provide a powerful mechanism for increased stakeholder oversight of companies on social factors, broadening this beyond both 'government-regulator' and 'institutional-but-voluntary' bodies

26 Mohamed Moustafa Soliman, 2013, *Firm Characteristics and the Extent of Voluntary Disclosure: The Case of Egypt* Available at: <https://core.ac.uk/download/pdf/234629702.pdf>

27 He, L. and Watson, A., 2020. Rio Tinto CEO resigns after destruction of 46,000-year-old sacred Indigenous site. CNN. Available at: <https://edition.cnn.com/2020/09/10/business/rio-tinto-ceo-intl-hnk/index.html>

28 BBC News. 2020. Mining firm BHP halts plan to disturb Aboriginal sites after outcry. Available at: <https://www.bbc.co.uk/news/world-australia-53015925>



i.e. the traditional gatekeepers of a firm’s reputation in these domains. Social media also extends the geographic scope of oversight far beyond the region or country the company operates in or in which the activity is located; even the most ‘local’ of behaviour is now potentially subject to international scrutiny.

The growth of these technology-enabled forms of oversight has occurred alongside growing consumer expectations of the sustainability and ethical integrity of the brands they patronise. Customers are willing to pay more to ethical retailers²⁹ and consumers’ trust in a brand and their loyalty to it is being linked to purposeful business practice.³⁰

For example, recent research³¹ found that there is a commercial opportunity for adopting an LGBT+ lens specifically within ESG investing. The research revealed that ESG assets topped over £30trn in 2020, with a growth of 34 per cent in the last two years. It said that

• **the ‘sustainable’ in ESG is a powerful driver of innovation and**
• **financial outperformance and companies with LGBT+ inclusion**
• **outperform by 3%.**

These trends also impact on the professional and financial services sectors, both directly (where their own performance and behaviour is scrutinised e.g. around Board diversity) and, increasingly, indirectly (where decisions on who or what to invest³² in or finance are no longer regarded as neutral but are increasingly scrutinised).

Some asset managers, for example, actively divest from companies that do not meet their sustainability criteria, including in the social dimension. In 2020, for example, a number of asset managers publicly announced their decision to reduce holdings of a retailer whose response to allegations of modern slavery in their supply chain was “inadequate”.³³ Asset managers have also accelerated their engagement around the material social issues of investee companies, particularly revived in the context of the COVID-19 pandemic.³⁴ And in 2021 numerous large institutional investors declined to participate in the Deliveroo IPO citing concerns about the firm’s employment relations. However, divestment is not the only tool available: voting and setting stewardship expectations also have a role.

29 KPMG. 2020. Me, my life, my wallet. Available at: <https://home.kpmg/xx/en/home/campaigns/2018/09/me-my-life-my-wallet.html>

30 Edelman, 2020. Trust Barometer Special Report: Brand Trust and The Coronavirus Pandemic. Available at: <https://www.edelman.com/research/covid-19-brand-trust-report>

31 A New Frontier: LGBT+Lens Investing for the 2020s. Available at: https://www.lgbtgreat.com/uploads/general/LGBT_A_New_Frontier_final.pdf

32 Hodgson, N., 2020. £1bn wiped off value of Boohoo. The Business Desk. Available at: <https://www.thebusinessdesk.com/northwest/news/2062668-boohoo-shares-plunge-following-undercover-reports>

33 Armstrong, A. and Griffiths, K., 2020. Aberdeen Standard Investments dumps Boohoo shares over pay scandal. The Times, Available at: <https://www.thetimes.co.uk/article/aberdeen-standard-investments-sells-stake-in-boohoo-amid-factory-pay-row-xzjrksskc>

34 BlackRock Investment Stewardship, “Our approach to engagement with companies on their human rights impacts”, March 2021. Available at: <https://www.blackrock.com/corporate/literature/publication/blk-commentary-engagement-on-human-rights.pdf> and BlackRock Investment Stewardship, “Our approach to engagement on human capital management”, March 2021. Available at: <https://www.blackrock.com/corporate/literature/publication/blk-commentary-engagement-on-human-capital.pdf>

2.1.6 The growth of the sustainable finance market

This focus on sustainable finance is now driving significant changes in the financial services sector, not least the creation of ESG products to meet the demand from sustainability-oriented customers.

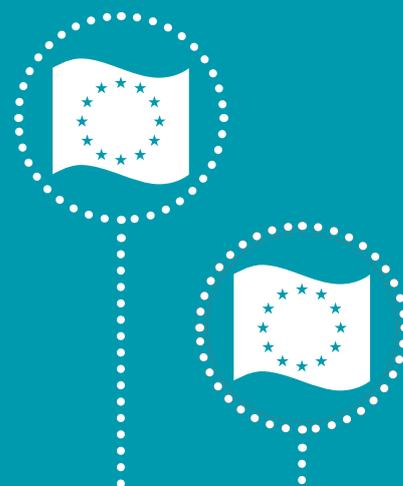
In August 2020, total investment in ESG-oriented funds exceeded \$1trillion for the first time on record, with flows of \$71billion in April – June 2020, when the pandemic was at its highest.³⁵ Assets of signatories of the Principles of Responsible Investment (‘PRI’) exceeded \$103trillion as of 2020. Each signatory has committed to the six PRI principles, and are actively incorporating ESG into investment analysis and decision-making processes.

In December 2020 global cumulative green bond issuance since the market’s inception in 2007 hit \$1 trillion.³⁶ The green bond market has thrived since the pandemic began, as has the new coronavirus-related bond market. These debt issuances are linked to programmes with explicit social benefits, from job support programmes to supporting vaccine rollout in less privileged communities. The UK Government has also announced intentions to issue the first Sovereign Green Bond.

“In August 2020, total investment in ESG-oriented funds exceeded \$1trillion for the first time on record, with flows of \$71billion in April – June 2020, when the pandemic was at its highest.”

EU Sure programme

In October 2020, the European Commission announced the EU SURE bond program (‘SURE’), a plan to issue €100billion of social bonds.³⁷ These bonds must be compliant with the EU SURE Social Bond Framework (‘EU SBF’). SURE, is a temporary instrument set to provide financial assistance in the form of loans to EU Member States experiencing an increase in public expenditure for the preservation of employment. The SURE instrument has been designed to sustain families’ incomes and preserve the productive capacity and human capital of enterprises. Notably, in the EU SBF, two UN SDGs are explicitly referenced (SDG 3: Good Health and Well-Being, SDG 8: Decent Work and Economic Growth).



ESG focused markets are thriving and demand for new ESG focused financial instruments has continued to increase. As stakeholder interest in the financial services sector’s contribution to the social dimension develops further, the need for a coherent policy framework that facilitates this will only increase.



35 Bioy, H., 2020. Sustainable Fund Flows Hit Record in Q2. Morningstar UK. Available at: <https://www.morningstar.co.uk/uk/news/204525/sustainable-fund-flows-hit-record-in-q2.aspx>

36 Climate Bonds Initiative. 2020. \$1Trillion Mark Reached in Global Cumulative Green Issuance: Climate Bonds Data Intelligence Reports: Latest Figures. Available at: <https://www.climatebonds.net/2020/12/1trillion-mark-reached-global-cumulative-green-issuance-climate-bonds-data-intelligence>

37 European Commission, 2020. European Commission to issue EU SURE bonds of up to €100 billion as social bonds. Available at: https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1808 [Accessed 22 February 2021].

Conclusion

Many factors are now operating to give the social aspects of sustainable finance prominence, putting business leaders under increasing pressure to consider and address how socially responsible their business' activities are. Governments are using the various mechanisms available to them, from introducing new law to incentives for 'good' behaviour (e.g. tax credits, improved access to financing and improved trade facilitation). Regulators are articulating their expectations about corporate behaviour and are using their legal tools to oblige financial firms. Consumers are now increasingly conscientious and are actively choosing to purchase from and/or work for companies who act 'ethically' and 'responsibly'.

Perhaps most significantly, business leaders are under increasing pressure as a result of the responses of their peers and/or competitors. As competitors are given the spotlight for issues such as employee diversity or supply chain ethics, or as their peers' expansion into ESG focused markets is covered favourably by the media, leaders will be asked why their business is not acting in the same 'ethical' or 'responsible' way.

2.2 Challenges faced – what do we need to move forward

2.2.1 Volume and inconsistency of frameworks and measurements

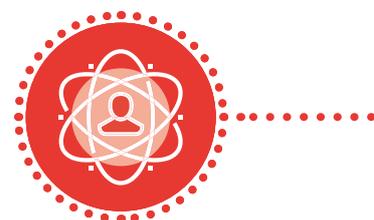
The volume of frameworks available to companies – often with different purposes and with varying coverage of social factors in terms of depth and breadth – creates a challenge for all stakeholders.

- : Without common frameworks it is difficult for analysts to compare
- : the performance of companies, for regulators to develop legally
- : binding standards, and for shareholders and other stakeholders to
- : hold companies to account.

The lack of granularity in several frameworks, for example in terms of measurements and disclosure rules, is notable. When considering granularity and breadth of social goals, there are no equivalents to the SDGs containing 17 Goals and 231 unique targets.

The SDGs provide the most consistent anchor and are used by policy makers and businesses alike. The Global Reporting Initiative ('GRI') is referred to as the first and most widely used comprehensive sustainability reporting standard in the world, with the largest number of members. Currently around 200 financial services firms are using GRI's Sustainability Reporting Standards for their sustainability reporting.³⁸

When considering social aspects, the focus of most frameworks is on a combination of human rights, slavery, bribery and wage gaps.



³⁸ Sustainability Reporting Guidelines & Financial Services Sector Supplement, Available at: https://www.unepfi.org/fileadmin/documents/gri_financial_services_supplement.pdf

Some of the frameworks focus exclusively on specific social issues. In particular, the human rights aspect is emphasised with the UN Guiding Principles Reporting Framework ('UNGPRF') which allows firms to report meaningfully on their human rights performance covering elements such as governance and accountability, human rights issues identification and management, and stakeholder engagement.

Some of the frameworks focus on how capital is used in order to create a positive social impact or to achieve SDGs. For example, the Global Steering Group for Impact Investment is playing an important role and Impact Reporting and Investment Standards ('IRIS') can be helpful when comparing performance between similar investment strategies, within similar Impact Categories and Themes or SDGs.

Most of the frameworks include voluntary recommendations rather than compulsory requirements, but the tendency has been to evolve recommendations into disclosure requirements.

The lack of comparability of businesses as a result of the volume and inconsistency of frameworks hinders efficient market behaviour and for this reason alone (though there are others), one coherent set of principles, metrics and standards would be beneficial.

2.2.2 Lack of global consensus

The 2015 Paris Agreement sparked action towards a carbon neutral global economy. The decarbonisation of global economies will help reduce the speed of climate change, which – as section 2.2.1 sets out – will also help to negate the social consequences of this environmental catastrophe. A global consensus on climate action has been facilitated by a clear science-based understanding of climate change and by the cross-border impact of carbon emissions and climate change. Social issues, by contrast, are often domestic.

However, decarbonisation can have significant social implications, for example as environmentally driven decisions may hit communities reliant on more polluting assets (e.g. coal). Even where they accept the underlying science, countries who see their path to prosperity or their comparative advantage built on carbon-based economic activities may have an incentive to push back against the UNFCCC process.

This phenomenon is just as likely (perhaps even more so) in the social space – economies reliant on the exploitation of social capital may have reason to oppose the imposition of global social standards (and even more so if those standards are also seen as culturally alien). This makes the achievement of a global consensus on which social issues are a problem that needs tackling, the relative priority amongst them, and on how best to tackle them particularly challenging.

2.2.3 'Social washing'

Similarly, to 'green washing', which is the accusation of misleading firms' stakeholders through reporting a more environmentally friendly impact than is accurate, 'social washing' is the accusation applied to



“The lack of comparability of businesses as a result of the volume and inconsistency of frameworks hinders efficient market behaviour and for this reason alone, one coherent set of principles, metrics and standards would be beneficial.”

companies who may be falsely representing their (positive) impact on society. This might result from a company overstating the impact of their investments in socially responsible projects or their commitment to human rights and labour rights across their supply chain, or from a failure to disclose negative social implications arising from their products/services.

Social washing risks being a greater issue for investors than green washing, as social issues are more likely to be assessed qualitatively, in contrast to the quantitative approach that can be taken for many environmental issues (e.g. greenhouse gas emissions; water usage etc). Such qualitative data can raise questions about consistency and reliability, but the underlying social issues may still be financially material.

2.2.4 ESG ratings and technology

As set out in section 2.2.1, the volume and inconsistency of ESG reporting creates challenges for stakeholders to compare companies on their ESG issues. To tackle this challenge, several ESG rating providers have emerged, scoring companies on their exposure to ESG linked risks. However, these ESG rating agencies are circumscribed by the quality and comparability of data reported by companies.

Following a recent breach of modern slavery requirements at a UK retailer, it was noted that many ESG focused funds were highly invested in the retailer, and the UK retailer had the equivalent of an investment-grade ESG rating.³⁹ Whilst ESG rating agencies may have a role to play, shareholders must remain hands-on with their stewardship; they cannot rely on the external ESG rating of a potential investment and must continue to perform their own due diligence.

As technology develops, reliable and comprehensive ESG data may become more available and reliable. For instance, drones have provided a more reliable and accessible means to assess the impacts of environmental catastrophes that may have profound social implications for economies reliant on access to the resource damaged (e.g. fishing communities following an oil spill in Mauritius). Addressing and mitigating these environmental catastrophes using technology can therefore mitigate against adverse social consequences.

As data concerning social issues is frequently qualitative, it is likely to be more difficult for ESG rating agencies to provide reliable ESG ratings for investors in this domain as the significant differences in ESG ratings for the same company from different rating agencies testify to this problem. As such, investors may feel unable to rely on ESG ratings for social issues and compelled to continue to perform their own due diligence.

2.2.5 Interaction with other areas of ESG

Section 2.1.1 explained how progress in the environmental space has led to progress in the social space. However, environmental issues

“Social washing risks being a greater issue for investors than green washing, as social issues are more likely to be assessed qualitatively, in contrast to the quantitative approach that can be taken for many environmental issues.”



³⁹ Mooney, A. and Nilsson, P., 2020. Why did so many ESG funds back Boohoo? FT, Available at: <https://www.ft.com/content/ead7daea-0457-4a0d-9175-93452f0878ec>.

have begun to separate from social and governance issues, with the emergence of environmental focused initiatives and standards.

Most notably, the UK Government has announced its intention to make climate focused TCFD-aligned disclosures mandatory across the economy by 2025. In the meantime, the Financial Reporting Council has encouraged UK public interest entities to voluntarily report against the TCFD’s recommended disclosures and, with reference to their sector, using the Sustainability Accounting Standards Board’s metrics.⁴⁰

Pressure from investors is also louder in the environmental space than in the social space, led by Climate Action 100+, a group of over 500 investors with over \$52 trillion assets under management. Climate Action 100+ has written to 150 of the world’s largest greenhouse gas-emitting companies to demand they put in place a “net-zero strategy” for 2050 or earlier.

- If environmental issues and social issues continue to separate,
- with more progress seen in the environmental space, momentum
- towards achieving coherence on social principles and standards
- may slow, preventing other challenges set out in section 2.2 from being addressed.



2.2.6 Social impact vs economic returns

Traditionally, the fiduciary duty of investors and directors in the investment system has been to maximise returns. This has been slowly changing as the 2005 “Freshfields Report”⁴¹ highlighted. It argued that “integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions”, one of the first reports arguing for the consideration of social factors to be included within investors’ fiduciary duty.

In 2015, the PRI, the United Nations Environment Programme Finance Initiative (‘UNEP FI’), UNEP Inquiry and UN Global Compact reported that “Failing to consider all long-term investment value drivers, including ESG issues, is a failure of fiduciary duty”⁴². Since then, as part of the ‘Fiduciary Duty in the 21st Century’ project, the PRI, UNEP FI and The Generation Foundation have been engaging policy makers and investors to raise awareness of the importance of ESG-issues to the fiduciary duties of investors. The project’s final report stated that “Investors that fail to incorporate ESG issues are failing their fiduciary duties and are increasingly likely to be subject to legal challenge”.

40 FRC, 2020. FRC Statement on Non-Financial Reporting Frameworks. Available at: <https://www.frc.org.uk/news/november-2020/frc-nfr-statement>

41 Freshfields Bruckhaus Deringer, 2005. A legal framework for the integration of environmental, social and governance issues into institutional investment. UNEP Finance Initiative. Available at: https://www.unepfi.org/fileadmin/documents/freshfields_legal_resp_20051123.pdf

42 PRI, 2015. Fiduciary Duty. Available at: <https://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century/244.article>

The argument is based on the understanding that ESG factors are financially material and the inclusion of ESG factors in decision making creates a more stable and resilient financial system. Consideration of social issues is important when assessing the financial performance of a company as social issues can significantly impact a company's profitability and brand image.

The pro-active consideration of social risks leads to improved financial resilience. For example, health and safety procedures, whilst potentially incurring an initial cost to companies, may reduce the risk of a costly lawsuit. Furthermore, when a company assesses and manages risks such as those associated with its people (e.g. employee turnover or absence), it is better able to understand and manage its operational resilience.

Importantly, the 2020 RIAA benchmark report found that responsibly managed funds are outperforming traditional funds.⁴³

2.2.7 Government intervention

As section 2.1.2 introduced, governments in some jurisdictions have used the levers available to them to encourage socially responsible business practice. However, these levers, including the introduction of legislation, are often imperfect.

For example, critics of mandatory gender pay gap reporting in the UK note that while it provides a degree of transparency and comparability it does not tackle the wider issue of gender equality in the workplace.

There may also be a concern that in jurisdictions where firms lean too heavily on government policy to determine what are the right social practices to engage in, progress may be impeded or reversed when short-term expediency demands it. For example, as governments⁴⁴ seek to deliver a post-COVID economic recovery there may be a temptation to reverse gains in the social sphere if they might be good for growth.

: Given this challenge, **financial services companies should not place** :
: **the responsibility for addressing the market trends set out in** :
: **section 2.1 entirely in the hands of governments; they must also** :
: **accept their underlying responsibility to improve social standards.** :



43 "Responsible Investment Benchmark Report, Australia", RIAA, 2020, Available at: <https://responsibleinvestment.org/wp-content/uploads/2020/09/RIAA-RI-Benchmark-Report-Australia-2020.pdf>

44 <https://www.reuters.com/article/us-health-coronavirus-india-workers-trfn/workers-rights-at-risk-as-indian-labour-laws-face-post-lockdown-challenge-idUSKBN22P00H>

3 EXAMINATION OF LEADING EXISTING MEASUREMENT FRAMEWORKS

3.1. Overview

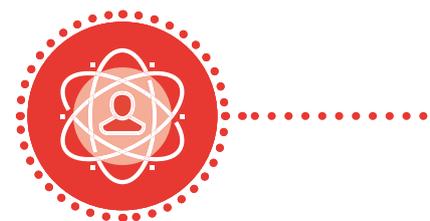
Most of the frameworks that are described below have an intention to highlight or mitigate risks caused by social issues. We have examined the frameworks that the IRSG ESG Workstream members considered as those with the most significant impact on social areas.

3.2 Existing measurement frameworks

The following eight frameworks were selected for a review by the IRSG ESG Workstream:

- UN Global Compact – Sustainable Development Goals ('UN SDGs');
- Global Steering Group for Impact Investment ('GSG');
- UN Guiding Principles Reporting Framework ('UNGPRF');
- World Benchmarking Alliance ('WBA');
- Global Reporting Initiative ('GRI');
- Sustainability Accounting Standards Board ('SASB');
- Impact Reporting and Investment Standards ('IRIS'); and
- World Economic Forum ('WEF').

Detailed review of the frameworks is presented in Addendum A.



3.3 Analysis of frameworks

The framework analysis has highlighted that there is a significant number of frameworks with underlying goals, principles, standards and recommendations which are overlapping in their purpose and coverage of social issues yet lacking in granular measurement and reporting requirements. Furthermore, social issues are deemed more complex, impact oriented and systemic than climate change, with fewer cross-border externalities and greater scope for different countries and firms to reach different conclusions about what is appropriate social practice or behaviour. The range of issues which could be included under the social heading each presents a compelling case for action but there is a risk that attempts to advance

across an overly broad set of issues risks lack of progress on any of them.

SDGs are perceived by some as having too many intangible goals and a voluntary set of targets. 16 goals are to some extent contingent on achieving SDG 1 (ending poverty) and this arguably could have been at the top of a shorter list of goals. On the other hand, nearly all stakeholders engaged in negotiations to develop the SDGs agreed that the higher number of 17 goals was justified because the agenda they address is all-encompassing.

Some of the goals can be considered at times to be competing, which only highlights the challenge that businesses face daily in determining the most appropriate course of action when none provides a solely positive outcome. For example, seeking high levels of quantitative GDP growth can make it difficult to attain ecological and inequality reduction, and meet sustainability objectives.

SDGs have become a common framework for disclosure, although some critics contend that current disclosures could be perceived as being without material positive impact to society. It is argued that this may result in ‘SDGs wash’ by businesses that does not drive a meaningful change. The SDGs may simply maintain the status quo⁴⁵ and fall short of delivering on the ambitious development agenda.

• The status quo has been described as “separating human wellbeing and environmental sustainability, failing to change governance and to pay attention to trade-offs, root causes of poverty and environmental degradation, and social justice issues”.

With regards to SDG targets, there is generally weak evidence linking the “means of implementation” to outcomes. The targets on “means of implementation” are described as “imperfectly conceptualized and inconsistently formulated” and tracking their largely qualitative indicators will be difficult.

Despite the criticism attracted, the SDGs have contributed to raising the bar on social issues globally. The countries that are most likely to complete the SDGs first include Sweden, Norway, Denmark, with Finland and Switzerland close behind.⁴⁶

The current pandemic situation has contributed to accelerated action towards SDG achievement. For example, in September 2020⁴⁷, the UN Broadband Commission for Sustainable Development called for digital connectivity to be established as a “foundational pillar” for achieving the SDGs. In a document titled “Global Goal of Universal Connectivity Manifesto”, the Broadband Commission noted: “As we define the ‘new normal’ for our post-COVID world, leaving no one behind means



45 Schleicher, Judith; Schaafsma, Marije; Vira, Bhaskar 2018. *Will the Sustainable Development Goals address the links between poverty and the natural environment?. Current Opinion in Environmental Sustainability*. Available at: <https://www.sciencedirect.com/science/article/pii/S1877343517302166>

46 *Sustainable Development Action – THE NORDIC WAY Implementation of the Global 2030 Agenda for Sustainable Development in Nordic Cooperation*. Available at: <http://norden.diva-portal.org/smash/get/diva2:1092868/FULLTEXT01.pdf>

47 Owen Gaffney, *10 things to know about the Sustainable Development Goals*, Available at: <https://roadtoparis.info/2015/09/16/10-things-to-know-about-the-sustainable-development-goals/>

leaving no one offline". SDG 3 is also an important goal in the current context aiming to achieve universal health coverage and provide access to safe and effective medicines and vaccines for all. On the other hand, COVID-19 has harmed the progress of some SDGs, for example, as a result of a rapid growth of populations who are living in extreme poverty.

The SDGs represent solid starting points, which other frameworks can complement. For example, the focus of the UNGPRF is on reporting issues with human rights, and similar to OECD guidelines on responsible business, the emphasis is on helping companies to eliminate risks related to workers, human rights and bribery.

Human rights, safe workplace and work-related issues, bribery, wage gap, health and safety, financial well-being of community are social issues which have been observed across the reviewed frameworks including WBA, UNGPRF, OECD, GRI and WEF. SASB and WBA emphasise leadership and governance with regards to safety management, corruption and bribery.

Financial Reporting Council (FRC) announcements pointing to TCFD and SASB show regulators supporting a framework and a standard setting organisation, showing best examples of standards implementation. The OECD Guidelines for Multinational Enterprises (MNEs) reflect the expectation of governments towards companies on how to act responsibly⁴⁸. They cover all thematic areas of business responsibility, including human rights and labour rights, as well as information disclosure, environment, bribery, consumer interests, science and technology, competition, and taxation. This is a unique Guideline and makes it the only government-backed instrument covering all major sustainability risks.

: Sustainability accounting and reporting practices can have either
: a significant positive or significant detrimental impact on the
: future well-being of the planet and its people, depending on their
: purpose and design. A profit and financial materiality focus could
: lead sustainability reporting to make a negative impact on, or reduced
: contribution to, sustainable development. Professors of Accounting
: researching in the field of sustainability accounting and reporting
: stated in their response to a recent IFRS Foundation Consultation Paper
: that one of the significant impediments to high quality, transparent
: sustainability reporting includes "approaches to materiality that
: significantly narrow the identification of sustainable development
: issues that come under corporate purview⁴⁹".

Aside from the obvious benefits that come from consistent and standardized reporting, the value of GRI, as a universally recognized reporting framework, is to save companies the significant workload involved in responding to myriad information requests from multiple bodies.



48 OECD Guidelines for Multinational Enterprises, Available at: <https://mneguidelines.oecd.org/guidelines/>

49 Open letter to the Chair of the IFRS Foundation Trustees from Professors of Accounting, Available at: <https://drcaroladams.net/open-letter-to-the-chair-of-the-ifsrs-foundation-trustees-from-professors-of-accounting/>

WBA launched a report January 2021, with indicators for 1,000 companies to use for 2021 WBA benchmarking. This report contains a detailed mapping between indicators and existing standards, such as SDGs, GRI, ILO and ETI base code, and facilitates easier understanding of the companies' ESG scores.

WEF, in collaboration with the Impact Management Project, is aiming to bring together the efforts of the five leading independent global framework and standard-setters (CDP, CDSB, GRI, IIRC and SASB) in order to develop a comprehensive corporate reporting system and a statement of intent which works as a complement to the common metrics released. The WEF Project deliberately drew metrics from existing standards to cross reference the language and facilitate accelerated SDG adoption. WEF metrics will provide additional clarity to investors and other stakeholders to ensure capital is aligning to drive progress on SDGs.

In August 2020, the WEF, in collaboration with Willis Towers Watson, published a framework in a report titled "Human Capital as an Asset: An Accounting Framework for the New World of Work" to assist companies in measuring and accounting for their workforces, including in the wake of COVID-19. The framework outlines how companies can transition to valuing talent as an asset rather than an expense.

If the world is going to meet the 2030 target for the SDGs, businesses will have to play a more prominent role. The actions they can take today are broad spanning from reviewing approaches for capital investment decision-making to incorporating longer-term social and environmental consequences. There are examples across the financial services industry and beyond which illustrate a positive impact business can have when they purposefully invest in companies that address critical social and environmental challenges and contribute to the achievement of SDGs and social principles set out in other frameworks.

- FP WHEB Sustainability Fund's nine investment themes relate directly to seven of the SDGs — Goals 3, 4, 6, 7, 11.
- In October 2016, BNP Paribas Corporate and Institutional Banking won the licence to the Solactive Sustainable Development Goals World index, BNP Paribas Aqua, which directly contributes to goals 3 and 6⁵⁰.
- Aviva is driving financial corporate responsibility for SDG, driving financial literacy and responsible investing⁵¹.
- 18 Dutch financial institutions, representing 2,800 billion Euros in assets, are developing a shared national SDG investment agenda with the Dutch Government and Central Bank⁵².

"If the world is going to meet the 2030 target for the SDGs, businesses will have to play a more prominent role."



50 BNP Paribas Announces Exclusive Licensing to New Sustainable Development Goals Index – BNP Paribas United Kingdom 2016, Available at: <https://www.bnpparibas.co.uk/en/2016/10/06/bnp-paribas-announces-exclusive-licensing-to-new-sustainable-development-goals-index/>

51 Aviva: Money Talks: *How Finance Can Further the Sustainable Development Goals* 2016: Available at: <https://www.avivainvestors.com/en-gb/>

52 Dutch investors step up to the Sustainable Development Goals challenge, 2017, Available at: <https://www.responsible-investor.com/articles/nl-sdg>

- In 2016, Triodos Bank (NL) mapped its activities against all 17 SDGs and flagged key targets, highlighting three different ways it impacts each goal by minimising negative impacts, undertaking action to positively influence them and disclosing measures it is taking to drive long-term market change.
- Swedish life insurer Skandia has mapped how it creates social value in support of six of the goals. It has also contributed to SDG 3: the company's preventive health work has seen sickness rates halve among insured customers over the past 10 years.

According to UNGPRF, other examples of positive business practices include Unilever (first adopter), Citi, ABN AMRO, Marks & Spencer, H&M, Ajinomoto, Total, Siemens.

3.4. Conclusions

There is currently no single framework that can support businesses to holistically achieve social goals, but rather a combination of frameworks with complementing principles and standards on social issues.

Interviewees from global standard setters also felt that there is no lack of standards but rather a lack of focus on implementation. For example, the UNGPs and International Bill of Human Rights were signed by most countries but the issues with the application of local legislation, practice and enforcement persist.

As there is no equivalent framework available today with extensive breadth of coverage of social, environmental and other issues, there is broad support for SDGs across stakeholder groups, from governance experts and businesses to ESG researchers. There is however a need to aggregate and package the goals in order to make the SDGs more accessible, to obtain wider recognition for them and to facilitate improved adoption and implementation. Without wider recognition, the necessary momentum to achieve them by 2030 will not be attained.

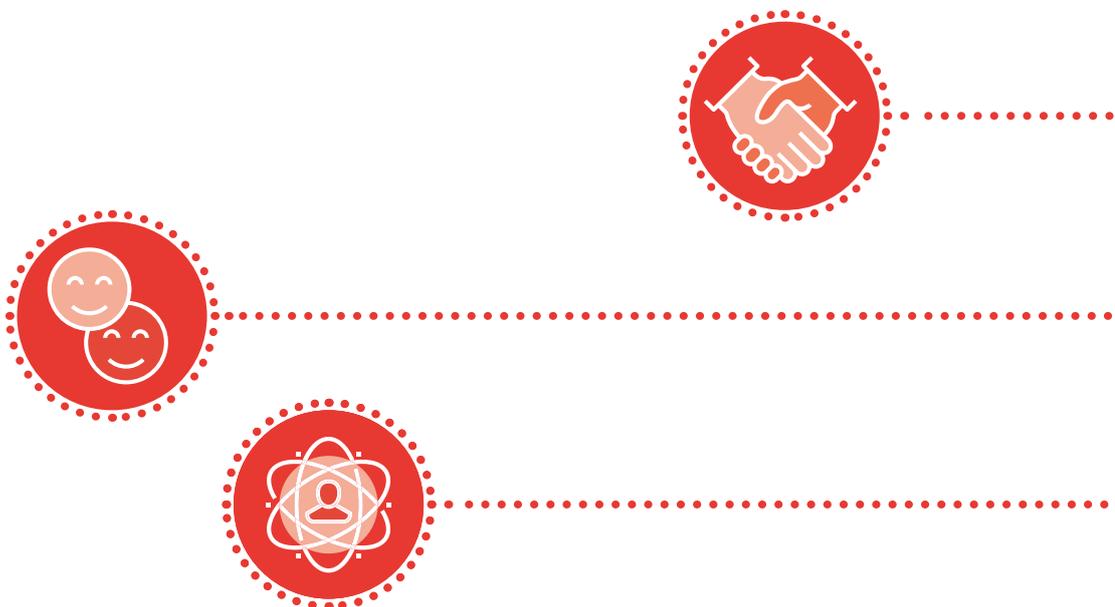


Whilst many companies recognize that their longer-term financial performance is dependent upon the achievement of the SDGs, many need to take greater responsibility to build momentum for their delivery; this is particularly important in the context of the pandemic which may have exacerbated underlying social problems. It is expected that prudent application of the measurement methods, increased granularity and quality of reporting and enhanced transparency in sustainability disclosures could all lead to a positive and sustained impact over the time. However, without public policy, companies may be unable to implement social frameworks in a uniform and consistent manner, which makes regulatory intervention seen as essential, including to ensure a level-playing field.

Recognising the need for a globally coherent solution for sustainability disclosure standards, recent market developments

- (IIRC and SASB merger)⁵³ will create the conditions for path for
- greater collaboration, advancing work towards a comprehensive
- corporate reporting system.

Furthermore, the IFRS Foundation continues to move ahead with plans to launch a sustainability standards board (SSB)⁵⁴. Following a three-month consultation period on the standardisation of sustainability reporting, the IFRS announced the formation of a Trustee Steering Committee in February 2021 to address the ‘growing and urgent demand to improve the global consistency and comparability in sustainability reporting’, possibly leading to an announcement on the establishment of an SSB at the meeting of the UN Climate Change Conference COP26 in November 2021.



53 IIRC and SASB intend to merge, 2020 Available at: <https://www.iasplus.com/en/news/2020/11/iirc-and-sasb-intend-to-merge>

54 IFRS Foundation Trustees announce next steps in response to broad demand for global sustainability standards, February 2021 Available at: <https://www.ifrs.org/news-and-events/news/2021/02/trustees-announce-next-steps-in-response-to-broad-demand-for-global-sustainability-standards/>

4 PRINCIPLES FOR MEASURING SOCIAL IMPACT

4.1. Overview

This section provides an overview of the various principles used to measure Social impact and identifies additional principles not covered by the frameworks set out in the above section. Six principles reviewed below have been selected based on recommendations of the IRSG ESG Workstream members and are considered to have the most significant social impact. Principles include:

- Principles for Responsible Investment ('PRI');
- Global Impact Investing Network ('GIIN');
- International Finance Corporation – World Bank Group ('IFC');
- Organisation for Economic Co-Operation and Development ('OECD');
- Social Value International ('SVI'); and
- International Integrated Reporting Council ('IIRC').

Detailed review of the principles is presented in Addendum B.

4.2. Analysis of principles

The different sets of social principles available today lack coherence in their objectives, granularity and focus on particular social issues and stakeholder groups. Certain principles are complementary to each other or to principles articulated in some of the existing frameworks. The number of frameworks and principles could be confusing to firms, complicated further by a lack of alignment and consistent application apply across jurisdictions. Limited adoption and implementation by firms, exacerbated by a lack of transparency in reporting, poses a further challenge.

The PRI are 'voluntary and aspirational' and they do not have minimum entry requirements or absolute performance standards. However, signatories have an obligation to report on the extent to which they implement the Principles through the annual Reporting and Assessment process. The PRI guide for investors is the most comprehensive description to date of what ESG-integrated analysis is, and how it works in practice.

Impact investors need to know how their investments are performing on both financial returns and impact. The GIIN's Evaluating Impact

Performance series provides the impact investing industry’s first collaborative effort, presenting an approach that advances investors’ ability to compare impact performance rigorously within a sector. Two instalments published to date have been focused on access to clean energy and housing.

The OECD, SVI and IIRC have limited focus or lack granularity of coverage of social issues. However, the OECD is relevant as it is the largest, most reliable source of comparable statistical, economic and social data, and that is complementary with the SVI in terms of identifying social value through qualitative and quantitative information. Both OECD and IIRC aim to improve communication by organisations about value creation over time, by establishing a common lexicon and framework for measuring the impact of investments targeting sustainable development.

The IFC comes under criticism from NGOs that it is not able to track its money because of its use of financial intermediaries and was not performing enough due diligence and managing risk in many of its investments in third-party lenders. Other criticism focuses on IFC working predominantly with large companies or wealthy individuals already able to finance their investments without help from public institutions such as IFC, and such investments do not have an adequate positive development impact.

4.3. Conclusions

There is a range of social principles in existence today with much overlap and some complementarity. But many of these principles present a lack of clarity and granularity when it comes to social impact. Some are too broad; others are too narrow or are oriented on long term impact with little focus on current social issues. The voluntary and/or self-reporting nature of most frameworks is also a common source of criticism.

Interviewees noted that civil society should be involved in defining principles to start with and have an ongoing role as they develop. Some of the interviewees also highlighted that violation of social principles is still not necessarily a financial risk to companies – many successful and profitable sectors thrive, despite violating social principles.



5 RECOMMENDATIONS

1. Coherence: pursue global consensus on social principles

Global consistency and coherence in how social policy outcomes are integrated into sustainable finance is a priority. A global approach will ensure better overall outcomes and enable the comparability that is essential for accountability. It will also avoid the creation of fragmented, overlapping and incompatible national or regional systems that lead to inefficiency and needless red-tape, as well as increased costs for financial services providers and users.

A global consensus needs to be achieved first on principles i.e. those social policy outcomes that, across the world, are the priority issues for the financial services industry to contribute to or to factor into its operations.

For each of these principles, agreement should then be found on a set of common metrics. Policymakers should agree on which data points provide the best way to capture those social principles that the financial services are expected to contribute to (with input from investee companies), so that all stakeholders have a shared understanding. A common approach to data and metrics (ideally underpinned by agreed frameworks for collection and reporting) will allow comparable baselines to be established and progress to be measured both at the micro level and – when aggregated – globally.

With consensus on the principles and the metrics we would hope to then see policymakers move towards the adoption of common standards i.e. the articulation of the concrete deliverable that the financial services industry (and by extension others with whom it works) should achieve.

The foundations for this global approach already exist (for example through the UN’s SDGs, which already have global status) and the IRSG believes global financial services policymakers should use these existing frameworks as the basis for their work in developing a social framework for sustainable finance.

Some recent initiatives have given momentum to this approach. At political level, the UK Chancellor has flagged this issue as a focus for the UK’s G7 presidency. Another important development is the launch of the IFRS Foundation’s new working group which is undertaking technical preparation for a potential international sustainability standards board (SSB) that might also cover ‘Social’⁵⁵. While we agree with the initial focus of the SSB to develop global sustainability-reporting standards for climate-related information, we believe that the SSB should cover a broader area as its mandate in the longer-term, including standards for social issues.

• This should not be unduly postponed as the new SSB has the potential to be one of the key actors to drive forward the agenda on the adoption of common social standards.



Target recipient for recommendation 1:

Financial Stability Board, IOSCO, new IFRS Foundation Sustainability Standards Board



⁵⁵ IFRS Foundation Trustees announce working group to accelerate convergence in global sustainability reporting standards focused on enterprise value <https://www.ifrs.org/news-and-events/news/2021/03/trustees-announce-working-group/>

RECOMMENDATIONS

2. Minimum standards should be defined for social issues

Global consistency in all three of social principles, metrics and standards for finance has to be the goal to which we aspire.

Market efficiency points towards a global approach that would apply to all markets and countries, regardless of whether they are higher, middle or lower income.

But it may be hard to achieve a concrete set of global standards at the outset. Norms, values and preferences differ from jurisdiction to jurisdiction and communities attach different weights to certain social outcomes.

It may also be the case that against certain social principles lower-income economies may not (yet) be in a position to achieve the same standards that higher-income economies expect of themselves, reflecting their current stage of economic development.

Policy on the social component of sustainable finance needs to be developed in a way that does not penalize countries for this. They should be encouraged and supported in their transition towards achieving higher standards, not punished for starting at a lower base. The financial services industry has a potentially important role to play in providing capital and expertise that can facilitate that transition and the global approach that the IRSG recommends should help to deliver that.

At the same time we recognise it is legitimate for the authorities in the home jurisdiction of internationally active financial institutions to want to ensure that capital being channelled to entities operating in those jurisdictions that have set lower social standards is genuinely promoting progress and not retarding development, rewarding low ambition, or undermining high domestic standards.

A ‘floor approach’ is one way to address this, with regulators at the global level agreeing minimum standards that would be applicable in all cases and in all transactions. But even these standards should not be static: global policymakers must revisit these minimum standards periodically to determine when, and how far, the global floor can be lifted.

Those authorities with the legislative, regulatory or supervisory power over financial services always have the right to go further than the international minimum standards should they feel it necessary (and for certain types of transaction or for transactions between certain counterparties it may be appropriate to do so). Global policymaking institutions cannot override domestic authorities but a shared commitment to a global approach wherever possible is likely to promote both improved social outcomes in those domains covered by principles and the benefits of integrated global financial markets.

The risk that the financial services industry would view minimum global standards not as a floor but as the maximum that should be expected of them is low. Greater transparency around a global social sustainable finance framework will lead companies to elect to do significantly more than the minimum standards in order to differentiate themselves in a competitive marketplace. And with common metrics and appropriate transparency and disclosure requirements stakeholders would also be able to exert pressure.

Target recipient for recommendation 2:

Financial Stability Board, IOSCO, new IFRS Foundation Sustainability Standards Board

“Lower income economies should be encouraged and supported in their transition towards achieving higher standards, not punished for starting at a lower base.”

RECOMMENDATIONS

3. A single social principle needs to be championed to drive momentum

The social component of sustainable finance needs to undergo a similar transformation to that which has been achieved with the environmental.

The focus on climate-related financial risks, accelerated by TCFD recommendations, is helping to drive the environmental component of sustainable finance more broadly, forcing such issues onto the balance sheet and into related financial disclosures.

The social dimension of sustainable finance does not yet enjoy the same visibility and prominence. It needs a similar driver, an equivalent lead issue that could provide a sense of priority and focus and build the momentum for the ‘S’ in sustainable finance as climate change is doing for the ‘E’.

Many issues could be selected as the lead, but the IRSG recommends that modern slavery is the most appropriate. Its pervasiveness (it is an issue that affect economies of all sizes and at all stages of development), its pernicious nature, and the existence of significant existing work on which to draw would make this a strong candidate.

A principle, data and metrics, and a minimum standard in this domain could draw on the work that the OECD has done with the ILO, the International Organization for Migration and United Nations Children’s Fund on modern slavery due diligence standards. Another existing initiative in this space is the “Liechtenstein Initiative – For a Financial Sector Commission on Modern Slavery and Human Trafficking – United Nations Partnerships for SDGs platform”⁵⁶ that could be drawn on.

The IRSG also believes that there is merit in the appointment of a global envoy for the financing of modern slavery being appointed to drive this particular aspect of sustainable finance, alongside the OHCHR Special Rapporteur on trafficking. This would be equivalent to the role played by Mark Carney on climate finance.



Target recipient for recommendation 3:

Financial Stability Board, IOSCO, new IFRS Foundation Sustainability Standards Board



“The social dimension of sustainable finance needs a driver and lead issue that could provide a sense of priority. The IRSG recommends that modern slavery is the most appropriate.”



56 Liechtenstein Initiative – For a Financial Sector Commission on Modern Slavery and Human Trafficking – United Nations Partnerships for SDGs platform (<https://sustainabledevelopment.un.org/partnership/?p=33996>)

RECOMMENDATIONS

4. Principles and standards must be defined at an appropriate level of granularity

The social principles and standards for sustainable finance that should be set by global financial policymakers need to be set at a level of detail to satisfy a number of different criteria. They need to be:

- of sufficient **detail** that they will prevent those businesses using them from merely ‘ticking a box’ without actually confronting the underlying social issue;
- **broad** enough to be relevant and applicable to a financial services industry that performs a range of different functions and roles across a diverse base of products and clients; specific sector-level guidance to facilitate comparability may be needed;
- **enduring** (so that firms can be confident in building the systems to capture and disclose data and in using the principles and standards in their decision-making) yet designed to increase ambition overtime as a fundamental part of their mechanism.

When defining the data and metrics for each social principle, the choice will need to reflect both preferences and values (i.e. which detailed measure actually captures appropriately and adequately the social feature under consideration) and the practicalities of data availability.

If the preferred metric or indicator (the one that is believed to captures the social good that should be promoted) is not available or accessible, then a decision needs to be taken whether to change the indicator or to focus on building the systems and structures that will in time deliver the data (or a combination of both).



Target recipient for recommendation 4:

Financial Stability Board, IOSCO, new IFRS Foundation Sustainability Standards Board, SASB, GRI



“When defining the data and metrics for each social principle, the choice will need to reflect both preferences and values and the practicalities of data availability.”



RECOMMENDATIONS

5. Using legislation creatively to drive socially sustainable finance

There is already a framework of obligations in the social sphere. Consideration should be given to defining and reaching consensus on the ‘minimum standards’ and the mechanisms which should be deployed to incentivise firms to meet and exceed these standards in a concerted effort.

Regulation needs to learn the lessons of the past and to be creative, seeking to encourage voluntary efforts (including by the financial sector) by incentivising progressive improvement rather than adding additional criminal offences, many of which cannot be enforced in practice.

While outright prohibition always has a role to play, regulators should also consider how they can use new approaches, such as opening up access to finance or bond issuance to investors. Overly prescriptive legislation can become outdated and securing agreement (particularly if global coherence is sought) can delay implementation. A reliance on a regulatory approach of prohibitions and enforcement may in particular not be the most suitable for those lower-income countries where the political and technical means to both prepare detailed legislation and enforce it may be lacking. In an attempt to cover every scenario and anticipate all eventualities, legislation inevitably becomes complex and unwieldy and has potentially negative consequences. The compliance costs that result may cause some firms to seek to alter their business model and activities simply to fall out of scope of such legislation; or the regulation may act as a barrier to innovation and to continued progress as firms have little incentive to do more than comply with their legislative obligations.

There is a strong case for progressive legislation: i.e. using regulation creatively and in tandem with other tools to drive a progressive improvement in social outcomes. Governments could, for example, make reporting on and adherence to the social standards it has set a prerequisite for certain forms of tax relief; or for achieving the right to issue certain types of financial instrument; or for improved access to financing and trade facilitation; or for the right to be eligible for government procurement. A notable successful example includes contracts for difference to incentivise investment in renewable energy⁵⁷. Another example of progressive legislation is the current UK Government consultation on “Restoring trust in audit and corporate governance”⁵⁸. This suggests the implementation of resilience statements where risks are highlighted. Such statements could cover ESG risks where they are material.

Regulation can also help with the provision of the data on which the success of socially sustainable finance will rest. In some cases, this might be by the imposition of new legal obligations on issuers to provide data in a standard form as part of their reporting. Investors can apply pressure on issuers to provide certain types of data and joint industry initiatives (e.g. through trade associations) can help to achieve consensus on data needs. But public policy has a key role, ranging from a convening power (to bring different stakeholders together to define voluntary solutions), through endorsement and amplification of voluntary standards, to – ultimately – the establishment of binding legal requirements for data that issuers must provide.

Target recipient for recommendation 5:

All legislative and rule-making bodies

⁵⁷ Policy paper, Contracts for Difference, 2020, Available at: <https://www.gov.uk/government/publications/contracts-for-difference/contract-for-difference>

⁵⁸ HMG Consultation on the government’s proposals on restoring trust in audit and corporate governance, March 2021 .Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/970673/restoring-trust-in-audit-and-corporate-governance-command-paper.pdf

RECOMMENDATIONS

6. Financial institutions can lead the way on the social component of sustainable finance

A global framework of principles, data and metrics, and standards, reinforced by legal measures from the appropriate local authorities, must be the right model for the development of the social component of sustainable finance. Such an approach provides the best route to both achieve better social outcomes and to make global markets more resilient.

The financial services industry should make the case consistently to local regulators, to Finance Ministries and legislators, and to the international standard-setters that this is a priority area that merits their attention.

But the financial services industry does not need to rely on such progress to be able to make a difference in their own practices, operations and supply chains. **Financial services firms – like other businesses – have a clear responsibility to engage with and to promote the achievement of social outcomes.**

And in their management and channelling of capital they also have a role to play. How the cost and availability of capital reflects ‘good’ and ‘poor’ social performance is perhaps the most powerful way that the financial services industry can contribute to the social component of sustainable finance. Where firms divest from (or refuse to invest in) those assets that are not compatible with the achievement of social outcomes a powerful signal is sent, both to the specific company and to the wider market.

Buy-side organisations can, for example, integrate the social ratings of companies in their asset selection considerations. On modern slavery specifically buy-side firms can contribute in two main ways: through incorporating this into their investment due diligence; where relevant, and through their engagement and active ownership with investee companies on these issues. There are efforts across the industry to integrate ESG factors into the investment process, and human rights in general is a core theme in many of these efforts. However, access to good quality disclosures from companies remains a major challenge.

Likewise, many investors already engage with investee companies on these issues, for example in the area of fast fashion. Increasingly, collaborative engagement to drive better disclosure and discussions are emerging, similar to the emergence of Climate Action 100+ as a key forum for investors to work together to drive change in high carbon emitting companies. The challenge will be to make the various investor alliances on Human Rights more effective.

An asset owner has – and should exercise – the right to ensure that particular social risks and opportunities are reflected in the investment decisions they make or that are made on their behalf.

But while all of this can be done – and is being done – by financial services firms, a global framework of principles, data and metrics, and standards is still needed to both achieve better social outcomes and to encourage global markets.

Target recipient for recommendation 6:

CEOs of financial services firms

“Financial services firms – like other businesses – have a clear responsibility to engage with and to promote the achievement of social outcomes.”

RECOMMENDATIONS

7. Call to action: Momentum must be built quickly to drive social change

To achieve the recommendations set out in this report, momentum for socially sustainable finance needs to be built. Some of this momentum can – and should – come from the financial services industry itself and this report from the IRSG demonstrates the willingness of financial and professional services firms to centre the social component of sustainable finance.

But global policymakers have a key role to play, both in raising awareness and profile of this aspect of ESG and in leading the development of the principles, metrics and standards identified in previous recommendations. As set out in recommendation 3 we believe that an ambassador should be appointed to lead this agenda, starting with modern slavery – given the value of this issue and of having a clear point of initial focus – but over time promoting socially sustainable finance more broadly.

With the mandate and the focus to look specifically at the social component of sustainable finance, this ambassador could act as an advocate, oversee the development of the principles, metrics and standards that are needed, and act as a source of expertise and inspiration for those policymakers struggling to make this a reality. The social ambassador will need to work with a range of stakeholders including international financial services regulators, the financial services industry, the wider business sector, and NGOs and civil society.

Socially sustainable finance is not an alternative to delivering climate finance, or to green finance more broadly, but rather an obvious complement to it (not least because of the danger that climate and other environmental pressures create new social pressures and challenges). The G7 Summit in Cornwall; the G20 Summit in Rome; and COP26 in Glasgow all, therefore, provide opportunities for the international community to identify socially sustainable finance as a priority and to appoint an ambassador to lead this work in future.

Target recipient for recommendation 7:

UK G7 Presidency; Italy G20 Presidency

“As set out in recommendation 3 we believe that an ambassador should be appointed to lead this agenda, starting with modern slavery – given the value of this issue and of having a clear point of initial focus – but over time promoting socially sustainable finance more broadly.”

ADDENDUM A: FRAMEWORKS

A1. UN Global Compact – Sustainable Development Goals ('SDGs')

Criteria	Description
Founder	United Nations
Established	2015
Structure	17 interlinked goals; 6 direct social impact; 5 indirect social impact; 6 goals having other than social aspects; 169 targets
Type	Set of goals
Strong points	Broad coverage of social
Drawbacks	Not clearly defined, competing goals, difficult to measure
Mission statement	Blueprint to achieve a better and more sustainable future for all

The SDGs are at the heart of 'The 2030 Agenda for Sustainable Development', adopted by all United Nations Member States in 2015⁵⁹, providing a shared blueprint for peace and prosperity for people and the planet. They recognise that ending poverty and other deprivations must go together with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change.

The SDGs are intended to be achieved by the year 2030 and contain a set of 17 interlinked goals designed to meet the urgent environmental, political and economic challenges facing the world.

The SDGs are underpinned by 169 targets and 231 Unique Indicators/Targets⁶⁰ which address a wide range of issues facing both countries with higher and lower income. These interconnected issues include poverty, inequality, climate change, inclusive societies and access to health and education. A central commitment of the Goals is to "Leave No One Behind", ensuring that

development progress reaches the most vulnerable and marginalised populations.

The UN Resolution adopted by the General Assembly⁶¹ on 6 July 2017 enhanced the SDGs and through identifying specific targets for each goal, along with indicators that are being used to measure progress toward each target.

Each goal typically has 8-12 targets, and each target has between 1 and 4 indicators used to measure progress toward reaching the targets. The targets are either "outcome" targets (circumstances to be attained) or "means of implementation" targets. The latter targets were introduced late in the process of negotiating the SDGs to address the concern of some Member States about how the SDGs were to be achieved. Goal 17 is wholly about how the SDGs will be achieved.

The indicators were classified into three tiers based on their level of methodological development and the availability of data at the global level. Tier 1 and Tier 2 are indicators that are conceptually clear, have an internationally established methodology, and data are regularly produced by at least some countries. Tier 3 indicators had no internationally established methodology or standards. The global indicator framework was adjusted so that Tier 3 indicators were either abandoned, replaced or refined.

The indicator framework was comprehensively reviewed at the 51st session of the United Nations Statistical Commission in 2020 and a total of 36 changes to the indicator framework were proposed for the Commission's consideration. The next reviewing phase is in 2025.

In June 2018, an online publication SDG-Tracker has been launched that presents available data across all indicators, highlighting multiple cross-cutting issues, such as gender equality, education, and culture across all the SDGs. The SDG-Tracker relies on the 'Our World

59 17 Sustainable Development Goals to protect the planet, Available at: <https://www.ucalgary.ca/sustainability/sustainable-development>

60 UK and the Sustainable Development Goals, Available at: <https://www.gov.uk/government/topical-events/uk-voluntary-national-review-of-progress-towards-the-sustainable-development-goals>

61 http://ggim.un.org/meetings/2017-4th_Mtg_IAEG-SDGNY/documents/A_RES_71_313.pdf

in Data' database from University of Oxford. The publication has global coverage and tracks whether the world is making progress towards the SDGs. It aims to make the data on the goals available and understandable to a wide audience. The website "allows people around the world to hold their governments accountable to achieving the agreed goals". The SDG-Tracker highlights that the world is currently very far away from achieving the goals. A variety of other tools exist to track and visualize progress towards the goals in order to facilitate monitoring and make data more available and more easily understood.

The Sustainable Development Report (formerly the SDG Index & Dashboards) is the first publication to track countries' performance on all 17 SDGs. The annual publication, co-produced by Bertelsmann Stiftung and Sustainable Development Solutions Network (SDSN), includes a ranking and dashboards that show key challenges for each country in terms of implementing the SDGs. The publication features trend analysis to show how countries performing on key SDG metrics have changed over recent years in addition to an analysis of government efforts to implement the SDGs.

Nearly 50% of SDGs have a direct social impact and are represented below:

Goal 1. End poverty in all its forms everywhere.

Goal 2. End hunger achieve food security and improved nutrition and promote sustainable agriculture.

Goal 3. Ensure healthy lives and promote well-being for all at all ages.

Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Goal 5. Achieve gender equality and empower all women and girls.

Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

The SDGs that have indirect social impact are represented below:

Goal 6. Ensure availability and sustainable management of water and sanitation for all.

Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all.

Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Goal 10. Reduce inequality within and among countries.

Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable.

The goals that are not related to social impact are: Goals 9, 12, 13, 14, 15, 17.

Achieving SDG 1 would end extreme poverty globally by 2030. The goal has a total of seven targets: five to be reached by 2030 and two that have no specified date.

An example of social measure is Indicator 1.3.1: Proportion of population covered by social protection floors or systems, by sex, distinguishing children, unemployed persons, older persons, persons with disabilities, pregnant women, new-borns, work-injury victims and the poor and the vulnerable.

Social protection systems, including floors, are essential to ensure that no one is left behind. Lower-income countries are rapidly expanding social protection. Many have achieved universal social protection schemes, and many have development partners working alongside them to promote Universal Social Protection Systems.

To further help organisations meet their obligations, the United Nations Development Program's SDG Impact Team has developed the SDG Impact Standards for Private Equity, Bonds and Enterprises. The Standards aim to change investment practices so that organisations make decisions that contribute to the health and well-being of people, societies and the planet.

A2. Global Steering Group for Impact Investment ('GSG')

Criteria	Description
Founder	UK's presidency of the G8
Established	2015
Structure	10 Principles
Type	Principles towards best practice corporate governance for achieving impact
Strong points	Identify how capital can be used to achieve SDGs
Drawbacks	Focus on impact investments only
Mission statement	Measurable impact being embraced as a deliberate driver in every investment and business decision affecting people and the planet

The GSG has National Advisory Boards ('NABs') in 18 countries plus the EU as members, working to bring leaders from finance, business and philanthropy together to ensure measurable impact is considered in every investment and business decision. The GSG are working in tandem with the United Nations Development Programme (UNDP) to assess progress towards the SDGs through adoption of global SDG Assurance Standards.

The GSG, through the GSG-NAB agreements, recommends principles towards best practice corporate governance for achieving impact investment and leveraging the power of the collective, having complementary social aspects such as Diversity and Inclusivity, and Knowledge Development.

A3. UN Guiding Principles Reporting Framework ('UNGPRF')

Criteria	Description
Founder	United Nations
Established	2015
Structure	Guidance divided into 2 chapters and 3 parts reporting frameworks
Type	Reporting Framework tool
Strong points	Comprehensive guidance on human rights
Drawbacks	Limited focus on social impact
Mission statement	The first comprehensive guidance for companies to report on human rights issues in line with their responsibility to respect human rights.

UNGPRF is the world's first comprehensive guidance for companies to report on how they respect human rights. The Reporting Framework and its guidance help firms and assurance practitioners to improve their management and performance on human rights. The framework is divided into three parts and comprised of 31 questions.

UNGPRF has a strong focus on "Salient human rights" and commitment to and governance of human rights risk management, with an emphasis on those human rights issues that are salient within firms' activities and business relationships which has the potential to cause severe negative impacts.

An advantage of using the UNGPRF is that it is designed to enable response from any company, including small companies and those at a relatively early stage in the process. UNGPRF has a unique Reporting Framework with guidance on implementation (prepare disclosure and improve performance), as well as on assurance (assure disclosure and audit performance).

A4. World Benchmarking Alliance ('WBA')

Criteria	Description
Founder	Aviva
Established	2017
Structure	15 social indicators, 5 criteria approach for analysis
Type	Benchmarking methodology
Strong points	Well-designed metric framework
Drawbacks	Model focused on large organisations only
Mission statement	Benchmarking for a better world. Building a movement to measure and incentivise business impact towards a sustainable future that works for everyone

The WBA's aim is to incentivise and accelerate companies' efforts towards achieving the SDGs. WBA is a comprehensive framework that recommends a model for achieving SDGs by aggregating them into seven systems that need to be transformed. It is expected to play a role in helping to leverage and harmonise the incoming wave of SDG-related monitoring initiatives that are currently being developed.

Since 2019, WBA developed benchmarking methodologies including a gender equality and women's empowerment benchmark, human rights, and digital inclusion⁶².

The WBA recently launched a scoping report with a proposed model for social transformation. The core social topics covered include commitment to respect human rights due diligence, discrimination, gender equality, forced labour, personal data protection and anti-corruption. The WBA is viewed as closely linked with GRI.

The WBA is using five criteria approach to identifying companies with the major impact on SDG application called 2,000 "keystone" companies (SDG2000). These companies span global listed, private and state-owned enterprises representing over 30 industries in 74 countries with \$43 trillion in collective revenues. By 2023, the WBA will assess and rank these 2,000 companies according to their potential to impact and achieve the SDGs.

A5. Global Reporting Initiative ('GRI')

Criteria	Description
Founder	USA Ceres and Tellus Institute
Established	1997
Structure	4 Series with only 1 related to social
Type	Reporting Standards
Strong points	A modular structure easy to update
Drawbacks	Voluntary code, lack of granularity on social aspects
Mission statement	To help businesses, governments and other organisations understand and communicate their impacts on issues such as climate change, human rights and corruption

GRI is referred to as the first and most widely used comprehensive sustainability reporting standard in the world, with the largest number of members. Currently about 200 Financial Services firms are using GRI's Sustainability Reporting Standards for their sustainability reporting.

According to KPMG Survey of Sustainability Reporting 2020⁶³, a record 80% of 5,200 leading companies across 52 countries⁶⁴ now voluntarily undertake sustainability reporting, with 67% using GRI. Almost all (96%) of the world's largest 250 companies report their sustainability performance, of which three in four adopt the GRI Standards.

Key drivers of sustainability reporting include a desire to minimise short term profit variations, gain stakeholder approval and enhance corporate reputation (particularly after reputation damaging incidents). GRI can help in eliminating false reporting as the company's sustainability efforts can be appropriately determined by all stakeholders.

The GRI standards are split between 'Universal' and 'Topic-specific'. The GRI 400 Social series is joined by 'Economic' and 'Environmental' in the topic-specific standards. The series is used to report information on an organisation's material impacts related to social topics, including but not limited to Labour/Management Relations [GRI 402] Training and Education [GRI 404]

62 Maria Noichl, *Report on the EU Strategy for Gender Equality, Committee on Women's Rights and Gender Equality Rapporteur, 2019* Available at: https://www.europarl.europa.eu/doceo/document/A-9-2020-0234_EN.html

63 *The Time Has Come: The KPMG Survey of Sustainability Reporting 2020*, Available at: <https://home.kpmg/xx/en/home/insights/2020/11/the-time-has-come-survey-of-sustainability-reporting.html>

64 52 Countries including US, China, India and Brazil

to Local Communities [GRI 413]. GRI are created in accordance with international labour practices such as OHSAS 18001, an occupational health and safety risk management system.

As the longest standing sustainability reporting standard setter, the GRI has by far the greatest number of users. Multi-stakeholder input to the GRI Standards, and hence strong reputation amongst stakeholders, is a key reason for corporate take-up of the GRI Standards.

GRI standards have a modular structure, making them easier to update and implement worldwide. Their adoption for sustainability reporting is increasing since the link between the environment, society and the economy is becoming better understood.

GRI has recently responded to IFRS Foundation Consultation paper on sustainability reporting calling for strengthened financial reporting that complements sustainability reporting and considers the financial risks and opportunities related to firm’s sustainability impacts. GRI has acknowledged that for sustainability reporting to reach an equal footing with the financial reporting and contribute to improved decision making, sustainability reporting needs to transition to mandatory requirements enabling greater transparency and comparability. It was also noted that greater interconnectivity between financial and sustainability reporting has the potential to reduce the reporting burden on firms whilst ensuring appropriate emphasis is placed upon identification of corporate impacts.



A6. Sustainability Accounting Standards Board

Criteria	Description
Founder	Jean Rogers, USA
Established	2011
Structure	5 broad sustainability dimensions, including two socials
Type	Disclosure Reporting Standards
Strong points	Detailed description of Human Capital and Social Capital
Drawbacks	Standards are voluntary
Mission statement	To establish industry-specific disclosure standards across ESG topics that facilitate communication between companies and investors about financially material, decision-useful information

The SASB Framework is comprised of five broad sustainability areas (across 79 industry standards) including social capital which covers the role of business in society and the expectation that a business will contribute to society in return for a social license to operate. SASB standards enable businesses around the world to identify, manage and communicate financially-material sustainability information to their investors.

SASB approaches social impact across two main dimensions: social capital and human capital, where standards require disclosure of material sustainability information that meets investor needs and that have impact on local communities, human rights, management of labour relations and safety culture.

SASB will promote SDGs achievement through facilitating communication between companies and investors about what is financially material, and decision-useful information.

The SASB standards can be used by companies in making disclosures in SEC filings and they are recognized by the European Commission as a suitable framework for companies to provide information to investors.

SASB participates in the Impact Management Project, which is a forum for organisations to build consensus on how to measure, compare and report impacts on environmental and social issues.

In September 2020, five framework- and standard-setting institutions of international significance including SASB, Carbon Disclosure Project (CDP), the Climate Disclosure Standards Board (CDSB), the GRI, and the International Integrated Reporting Council (IIRC) have co-published a shared vision of the elements necessary for more comprehensive corporate reporting to drive sustainability performance and a joint statement of intent to drive towards this goal by working together.

A7. Impact Reporting and Investment Standards ('IRIS')

Criteria	Description
Founder	The Rockefeller Foundation and B Lab
Established	2019
Structure	Long list of criteria having only 3 related to the social
Type	Catalogue of generally accepted metrics
Strong points	Serve as a taxonomy, having a well-structured library and tool
Drawbacks	Limited focus on investors
Mission statement	The generally accepted system for impact investors to measure, manage, and optimize their impact

The Impact Reporting and Investment Standards ('IRIS') provide a common reporting language to describe social and environmental performance and ensure uniform measurement and articulation of impact across companies. IRIS serves as the taxonomy, or set of terms with standardized definitions, that governs the way companies, investors, and others define their social and environmental performance. The IRIS taxonomy allows for benchmarking of data across companies by serving as a repository for aggregated IRIS-compliant data.

The IRIS tool collects and aggregates data from organisations anonymously to help the industry identify these benchmarks. IRIS recommends using their Catalogue of Metrics as a part of the investment management process, in order to obtain social data. Users can choose which metrics to adopt and use across a diverse set of sectors and geographies.

The metrics contained in the IRIS system align with the GRI Standards alongside 50 other frameworks, standards, methodology, and assessment tools. IRIS data can also be used to compare performance between similar investment strategies, within similar Impact Categories and Themes or SDGs.

The IRIS system supports integration of social factors (diversity and inclusion, education, employment) into investment decisions alongside risk and return, which allows investors to account for the positive and negative effects of their investments, and in doing so, minimize negative and optimize positive effects.

A8. World Economic Forum ('WEF') metrics

Criteria	Description
Founder	WEF and International Business Council
Established	2020
Structure	21 core ESG metrics or 34 expanded metrics, 4 pillars of which 2 are social related
Type	Metrics and recommendations
Strong points	Clarity to investors and ensure capital is aligning to the SDGs
Drawbacks	The Project deliberately drew metrics from existing standards such as the GRI
Mission statement	Common standards to aid all companies around the globe, regardless of industry, in their sustainable value creation

The "Toward Common Metrics and Consistent Reporting of Sustainable Value Creation", also known as the 'WEF metrics', announced at Davos in 2020, propose a common, core set of metrics and recommended disclosures that International Business Council (IBC) members could use to align their mainstream reporting.

The WEF metrics leveraged other standards and principles (i.e. SASB, GRI, PRI, SDGs etc.) to create 22 core ESG metrics, including Inclusion and Diversity, community investment and gender pay equality. The WEF metrics also include expanded recommendations, including well-being, 'social value generated' and freedom of association and collective bargaining which have not been highlighted in other frameworks.

The WEF Report organizes the metrics along sustainability pillars such as People and Prosperity, which align with the SDGs. WEF recommends that each company applies its own view of 'dynamic materiality' of ESG issues, reporting on what is deemed material to its business and stakeholders.

ADDENDUM B: PRINCIPLES

B1. Principles for Responsible Investment ('PRI')

Criteria	Description
Founder	United Nations
Established	2005
Structure	6 principles for ESG incorporation
Type	Set of principles
Strong points	The most comprehensive guide for investors on the ESG – integrated analysis
Drawbacks	Principles are voluntary, and rely on self-reporting system
Mission statement	A United Nations-supported international network of investors working together to implement its six aspirational principles, often referenced as "The Principles"

The six PRI Principles are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practices. The Principles were developed by investors, for investors, with over 3,000 signatories as of July 2020.

The Principles are based on the idea that ESG issues, such as climate change and human rights, can affect the performance of investment portfolios and should therefore be considered alongside more traditional financial factors if investors are to properly accomplish their fiduciary duty.

The six Principles provide a global framework for mainstream investors to consider these ESG issues:

1. Incorporate ESG issues into investment analysis and decision-making processes.
2. Incorporate ESG issues into ownership policies and practices.
3. Seek appropriate disclosure on ESG issues by the entities in which they invest.
4. Promote acceptance and implementation of the Principles within the investment industry.
5. Enhance effectiveness in implementing the Principles.
6. Report on activities and progress towards implementing the Principles.

The PRI goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision-making and ownership practices. In implementing these principles, signatories contribute to the development of a more sustainable global financial system.

The PRI launched a guide to help investors, both asset owners and investment managers, who are implementing ESG integration techniques in their investment process⁶⁵. The guide contains information and case studies on integration techniques that apply to investment strategies including fundamental, quantitative, smart beta and passive investment. It is useful in assisting asset owners and investment managers with constructing ESG-integrated investment processes and helps asset owners to assess their managers' integration practices. For example, there is a chapter on sell-side investment research which maps out the types of ESG-integrated research available and demonstrates brokers' integration techniques.

The PRI is a founding member of the United Nations Sustainable Stock Exchanges (SSE) initiative along with the United Nations Conference on Trade and Development (UNCTAD), the United Nations Environment Programme Finance Initiative (UNEP-FI), and the UN Global Compact.

⁶⁵ A Practical Guide to ESG Integration for Equity Investing, 2016: Available at: <https://www.unpri.org/download?ac=10>

B2. Global Impact Investing Network ('GIIN')

Criteria	Description
Founder	Amit Bouri, The Rockefeller Foundation, JP Morgan Chase, USAID
Established	2009
Structure	4 distinct actions
Type	Goals, Strategies, Metrics, Managing Performance
Strong points	Metrics on Financial Inclusion, Access to Quality Healthcare, Access to Quality Education, Affordable Quality Housing, Financial Inclusion
Drawbacks	Very broad focus on impact investing covering research, metrics, events. Many areas of social aspects are not included such as racial equity, gender equality
Mission statement	To increase the scale and effectiveness of impact investing, to accelerate the development of a coherent impact investing industry

The GIIN identifies four characteristics that define impact investing: intentionality, use of evidence and impact data in investment design, management of impact performance and contribution to growth. These core characteristics of Impact Investing complement the GIIN's existing definition of impact investments, which are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return⁶⁶.

Impact Measurement and Management (IMM) is at the heart of impact investing, which is why the GIIN provides tools, guidance, and resources to help investors identify metrics and integrate impact considerations into investment management.

The GIIN, a non-profit dedicated to increasing the scale and effectiveness of impact investing, promotes IRIS. IRIS+ is the GIIN's catalogue of generally accepted performance metrics, a system for measuring, managing and optimizing impact that majority of impact investors use to measure social, environmental and financial success⁶⁷.

B3. International Finance Corporation ('IFC') – World Bank Group

Criteria	Description
Founder	World Bank Group
Established	2009
Structure	Range of advisory services
Type	A set of development goals, principles and guide
Strong points	Significant impact on investments activities
Drawbacks	Lack of due diligence and risk management
Mission statement	Ending extreme poverty by 2030 and boosting shared prosperity

As part of the World Bank Group, IFC has two overarching goals: ending extreme poverty by 2030 and boosting shared prosperity, that are aligned with the SDGs. The IFC has developed nine operating principles for impact management and a guide on how to implement the principles for relevant stakeholders.

The IFC's results-measurement framework currently comprises mostly sector-level outcome indicators, including Harmonized Indicators for Private Sector Operations ('HIPSO') used by multiple development finance institutions to measure, monitor, and report on development outcomes, including those related to the SDGs⁶⁸.

In addition to its investment activities, the IFC provides a range of advisory services to support corporate decision-making regarding business, environment, social impact, and sustainability. The IFC's corporate advice targets governance, managerial capacity, scalability, and corporate responsibility. It prioritizes the encouragement of reforms that improve the trade friendliness and ease of doing business to advise countries on fostering a suitable investment climate. It also offers advice to governments on infrastructure development and public-private partnerships. The IFC attempts to guide businesses toward more sustainable practices, particularly with regards to having good governance, supporting women in business, and proactively combating climate change.

IFC Sustainability Framework articulates IFC's commitment to sustainable development and is part of its approach to risk management. IFC's Environmental and social policies, guidelines and tools are widely

⁶⁶ Impact investing, Available at: <https://thegiin.org/impact-investing/need-to-know/>

⁶⁷ IRIS Catalog of Metrics, Available at: <https://iris.thegiin.org/metrics/>

⁶⁸ IFC's Contribution to the Sustainable Development Goals, Available at: <https://www.ifc.org>

adopted as market standards and embedded in operational policies by corporations, investors, financial intermediaries, stock exchanges, regulators, and countries. In particular, the Environmental, Health, and Safety Guidelines (known as the “EHS Guidelines”) contain the performance levels and measures that are normally acceptable to the World Bank Group, and that are generally considered to be achievable in new facilities at reasonable costs by existing technology.

Since 2009, the IFC has focused on a set of development goals that its projects are expected to target⁶⁹. Its goals are to increase sustainable agriculture opportunities, improve healthcare and education, increase access to financing for microfinance and business clients, advance infrastructure, help small businesses grow revenues, and invest in climate health.



B4. Organisation for Economic Co-operation and Development (‘OECD’)

Criteria	Description
Founder	Robert Marjolin, France
Established	2019
Structure	4 areas: financing, innovation, policy and data
Type	Policies and guidance
Strong points	The largest, most reliable sources of comparable statistical, economic and social data
Drawbacks	Lack of granular social aspect
Mission statement	Establish common lexicon and framework for measuring the impact of investments targeting sustainable development

The OECD’s Social Impact Investment Initiative aims to foster economic development while achieving social outcomes and provides the analytical basis for international comparison. The OECD provides guidance for policy makers, financiers, investment practitioners and the private sector more broadly, to help them maximise the contribution of social impact investing to the 2030 Agenda⁷⁰. It provides four sets of recommendations including financing, innovation, policy and data. These recommendations are relevant to addressing poverty, inequality, education and health.

Providing the evidence-based policies, the OECD is also the world largest, most reliable source of comparable statistical, economic and social data. It provides guidelines for due diligence recommendations and associated provisions that can help enterprises avoid and address adverse impacts related to workers, human rights and bribery. The OECD is viewed as particularly aligned to the GRI and Corporate Human Rights Benchmark.

The ILO and the OECD Development Centre launched a report on immigrants’ contribution to lower-income countries’ economies. Using both quantitative and qualitative methods, the report examines empirically how immigrants affect key dimensions of the countries’ economies including labour market in terms of labour force and human capital, economic growth and public finance. It provides analysis on the political and historical context of immigration in ten counties and delivers recommendations on ways to enhance the contribution of immigration in different contexts through appropriate policy responses.

The ILO’s eight core conventions outline specific groups or population that require special attention: women, children, migrant workers and their families, persons belonging to national or ethnic, linguistic, and religious minorities, indigenous peoples, and persons with disabilities⁷¹.

69 International Finance Corporation, Available at: <https://www.insightsonindia.com/2020/08/11/international-finance-corporation-ifc-3/>
 70 Social Impact Investment 2019, Available at: <https://www.oecd.org/development/social-impact-investment-2019>
 71 Convention on the Rights of the Child, 2009, Available at: www.unicef-irc.org/portfolios/general_comments/CRC.GC.C.11.doc.html

B5. Social Value International ('SVI')

Criteria	Description
Founder	Jeremy Nicholls, SROI Network
Established	2010
Structure	7 principles of social value
Type	A set of principles
Strong points	Increase social value through qualitative and quantitative information
Drawbacks	Difficult to differentiate social aspect
Mission statement	To change the way society accounts for value through principles, practice, people and power

The Seven Principles of Social Value have been drawn from principles underlying social accounting and audit, sustainability reporting, cost benefit analysis, financial accounting, and evaluation practice. The principles seek to increase accountability and maximise social value through qualitative and quantitative information, whilst also considering the impact of environmental matters on societies.

The Principles of Social Value:⁷²

- 1. Involve stakeholders** – Inform what gets measured and how this is measured and valued in an account of social value by involving stakeholders.
- 2. Understand what changes** – Articulate how change is created and evaluate this through evidence gathered, recognising positive and negative changes as well as those that are intended and unintended.
- 3. Value the things that matter** – Making decisions about allocating resources between different options needs to recognise the values of stakeholders. Value refers to the relative importance of different outcomes. It is informed by stakeholders' preferences.
- 4. Only include what is material** – Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact.
- 5. Do not over-claim** – Only claim the value that activities are responsible for creating.
- 6. Be transparent** – Demonstrate the basis on which the analysis may be considered accurate and honest and show that it will be reported to and discussed with stakeholders.
- 7. Verify the result** – Ensure appropriate independent assurance.

SVIs can provide support to firms in developing strategies to increase the social and environmental value they create, manage activities by comparing performance against forecasts and help communicate with funders and beneficiaries.

⁷² The Principles of Social Value, Available at: <https://www.socialvalueuk.org/what-is-social-value/the-principles-of-social-value/>

B6. International Integrated Reporting Council ('IIRC')

Criteria	Description
Founder	Prof. Mervyn King, Chairman, King Committee on Corporate Governance
Established	2010
Structure	Guiding Principles and Content Element
Type	Integrated Reporting
Strong points	Enables a more efficient and productive allocation of capital
Drawbacks	Limited emphasis on the social aspects
Mission statement	Aims to create a globally accepted framework for a process that results in communications by an organisation about value creation over time

The IIRC is a global coalition with the view that communication about value creation should be the next step in the evolution of corporate reporting. The Integrated Reporting ("IR") framework aims to enhance accountability and stewardship for the broad base of capitals (including social)⁷³ and promote understanding of their interdependencies. The "IR" Framework provides principles-based guidance for companies and other organisations, with the 'social value' created for others as a fundamental concept.

The "IR" Framework applies principles and concepts that are focused on bringing greater cohesion and efficiency to the reporting process and adopting "integrated thinking" as a way of breaking down internal silos and reducing duplication⁷⁴. It improves the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.

73 International Integrated Reporting Framework, 2021, Available at: <https://integratedreporting.org/wpcontent/uploads/2021/01/InternationalIntegratedReportingFramework.pdf>

74 International Integrated Reporting Framework, Available at: <https://www.ipfin.co.uk/en/sustainability/sustainability-management/reporting-assurance.html>

ADDENDUM C: GLOSSARY

AGM	Annual General Meetings
AIFs	Alternative Investment Funds
CBI	Confederation of British Industry
CDP	Carbon Disclosure Project
CDSB	Climate Disclosure Standards Board
COP26	UN Climate Change Conference of the Parties
CSR	Corporate Social Responsibility
EC	European Commission
EHS	Environment Health And Safety
ESA	European Supervisory Authority
ESG	Environmental, Social and Governance
ETI	Ethical Trading Initiative
EU	European Union
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
GIIN	Global Impact Investing Network
GRI	Global Reporting Initiative
GSG	Global Steering Group for Impact Investment
HIPSO	Harmonized Indicators for Private Sector Operations
IBC	International Business Council
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
ILO	International Labour Organisation
IMM	Impact Measurement and Management
IPO	Initial Public Offering
IRIS	Impact Reporting and Investment Standards
IRSG	International Regulatory Strategy Group
MNEs	Multinational Enterprises

MSA	Modern Slavery Act
NABs	National Advisory Boards
NFRD	Non-Financial Reporting Directive
NGO	Non-governmental organisations
OECD	Organisation for Economic Co-operation and Development
PRI	Principles of Responsible Investing
RIAA	Responsible Investment Benchmark Report, Australia
SASB	Sustainability Accounting Standards Board
SSE	United Nations Sustainable Stock Exchanges
SDGs	UN Sustainable Development Goals
SDSN	Sustainable Development Solutions Network
SEFR	EU Social Entrepreneurship Funds Regulation
SFDR	EU Sustainable Finance Disclosure Regulation
SIB	Social Impact Bonds
SROI	Social Return on Investment
SVI	Social Value Investing
TCFD	Task Force on Climate-related Financial Disclosures
UCITS	Undertakings for Collective Investment in Transferable Securities
UN	United Nations
UNDP	United Nations Development Programme
UNCTAD	United Nations Conference on Trade and Development
UNEP FI	United Nations Environment Programme Finance Initiative
UNGPRF	UN Guiding Principles Reporting Framework
WBA	World Benchmarking Alliance
WEF	World Economic Forum

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ESG	Environmental, Social and Governance
ETI	Ethical Trading Initiative
EU	European Union
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
GIIN	Global Impact Investing Network
GRI	Global Reporting Initiative
GSG	Global Steering Group for Impact Investment
HIPSO	Harmonized Indicators for Private Sector Operations
IBC	International Business Council
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
ILO	International Labour Organisation
IMM	Impact Measurement and Management
IPO	Initial Public Offering
IRIS	Impact Reporting and Investment Standards
IRSG	International Regulatory Strategy Group
MNEs	Multinational Enterprises

MSA	Modern Slavery Act
NABs	National Advisory Boards
NFRD	Non-Financial Reporting Directive
NGO	Non-governmental organisations
OECD	Organisation for Economic Co-operation and Development
PRI	Principles of Responsible Investment
RIAA	Responsible Investment Benchmark Report, Australia
SASB	Sustainability Accounting Standards Board
SSE	United Nations Sustainable Stock Exchanges
SDGs	UN Sustainable Development Goals
SDSN	Sustainable Development Solutions Network
SEFR	EU Social Entrepreneurship Funds Regulation
SFDR	EU Sustainable Finance Disclosure Regulation
SIB	Social Impact Bonds
SROI	Social Return on Investment
SVI	Social Value Investing
TCFD	Task Force on Climate-related Financial Disclosures
UCITS	Undertakings for Collective Investment in Transferable Securities
UN	United Nations
UNDP	United Nations Development Programme
UNCTAD	United Nations Conference on Trade and Development
UNEP FI	United Nations Environment Programme Finance Initiative
UNGPRF	UN Guiding Principles Reporting Framework
WBA	World Benchmarking Alliance
WEF	World Economic Forum

The International Regulatory Strategy Group (IRSG) is a practitioner-led group comprising senior leaders from across the UK-based financial and related professional services industry. It is one of the leading cross-sectoral groups in Europe for the industry to discuss and act upon regulatory developments.

With an overall goal of promoting sustainable economic growth, the IRSG seeks to identify opportunities for engagement with governments, regulators and European and international institutions to advocate an international framework that will facilitate open and competitive capital markets globally. Its role includes identifying strategic level issues where a cross-sectoral position can add value to existing views.

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