

BSR response to the CDSB consultation on social issues

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To Whom it May Concern,

BSR (Business for Social Responsibility) warmly welcomes the CDSB's efforts to enhance corporate reporting by more fully considering social topics in the CDSB Framework. We believe this is crucial to ensure that material social issues are effectively identified, addressed, and reported on by companies.

BSR works with businesses, including financial services companies, to create a just and sustainable world. BSR's team of human rights and sustainability business experts works with 250+ member companies and other partners from civil society and government to enable business to develop ambitious strategies and translate them into action that builds resilience, drives innovation, and delivers value for business and society. For 25 years, BSR has been at the forefront of helping companies integrate social considerations, including respect for human rights, into broader business strategies, processes, and plans.

We believe that meaningful integration of social considerations into CDSB is crucial for ensuring the truly just and sustainable transition that are needed to achieve the ambitious goals of Paris Climate Agreement and the 2030 Sustainable Development Agenda and ensuring sustainable businesses are part of the solution while creating value. Our experience with business indicates that a robust and integrating approach to dealing with environmental and social issues is necessary to ensure investors and their portfolio companies effectively consider and act on financially material sustainability risks and opportunities. We therefore take this opportunity to provide feedback on the draft CDSB Framework and highlight the following key points for consideration:

MATERIALITY

The rapid growth of regulatory and voluntary reporting frameworks in recent years has created practical challenges for companies seeking in good faith to disclose their efforts to meet sustainability and human rights goals and responsibilities. This is partly because the myriad frameworks define and determine what is material in different ways. To achieve the sustainability goal underlying the CDSB Framework, it is vital for frameworks to align on core concepts and approaches.

In the current draft CDSB Framework, the definition of materiality would benefit from clearer and more consistent alignment with the definition of materiality as conceived by the GRI's latest Universal Standards and as set out by relevant EU directives and regulations. Impact-based materiality—central to double materiality—is key for identifying and delivering on financially material information on social issues and achieve sustainability outcomes. We therefore suggest using the language of 'double materiality' as defined by the GRI.

LIVING WAGE & INEQUALITY

We welcome the reference to living wage as a financially material topic for disclosure (and in line with the expectation set forth on GHG emissions). The failure to pay living wages significantly contributes to people living in situations of poverty.

However, having worked with businesses concerned with addressing the social impacts of their business activities and value chains for over two decades, we have seen that living wage on its own is not the sole contributor to economic inequality, much less to broad societal inequality (line 42, page 12). While living wage is indeed important, we feel that the current framing may have the following unintended consequences:

- Elevating living wage above other socially material issues related to inequality risks limiting corporate understanding and reporting on their contribution to inequality (e.g., discrimination, irresponsible tax practices, lobbying, land use impacts of offsets, healthcare costs, systemic impacts linked to high-risk products and services) and the associated inward impacts on the company.
- SASB has already determined a range of other social topics as material to business, which in effect means this more limited approach may risk rolling back progress made by SASB.

Crucially, the scope of reporting on living wage is inadequately. While the CDSB's reporting requirement on emissions extends to supply chains, in the case of living wage, reporting is limited to a company's own operations. This is not only inconsistent with the GHG emission standards, but also with the standards set out by the UN Guiding Principles on Business and Human Rights. Businesses are responsible for managing their human rights impacts across the full value chain, which includes living wage in supply chains.

We recommend nuancing the framing of living wage as one factor that addresses economic inequality and that acting on living wage is a first step. We further recommend ensuring that the reporting responsibility extend to the value chain.

INVESTOR AUDIENCE

Further clarity on the intended investor audience would be helpful. While there is some inconsistency in approach in the draft, the current framing suggests that the framework should be used to inform mainstream reports, which are the "annual reporting packages in which organisations are required to deliver their audited financial results under the corporate, compliance or securities laws." This framing may have the effect of limiting the scope of applicability to publicly traded companies, meaning the target are investors in public equity.

The CDSB Framework has a clear opportunity to reach a broader audience of companies and investors by expanding the framing and target audience. The draft could elaborate on how private equity firms and other investors in alternative asset classes, such as real estate, could use this with their investees. This is essential given the limited transparency in private markets, including for limited partners such as public pension funds. Also, private investment in fossil fuel companies has grown as public equity firms have increasingly divested. This makes access to information on CDSB material topics essential for financially prudent investors in private markets.

SCOPE OF SOCIAL ISSUES FOR DISCLOSURE

The draft would benefit from further clarity regarding the scope of social/human rights issues for reporting. Seeing as the CDSB aims to guide climate-related corporate disclosures, should the social topics for disclosure be those related to the company's climate impacts and associated mitigation measures (e.g., human rights related to just transition)? Or is the expectation that companies should disclose all material social/human rights issues present

in their operations and value chains irrespective of their relationship to climate change mitigation (e.g., sexual harassment, mental health, data privacy)?

STANDARDS APPROACH FOR SOCIAL TOPICS

Human rights—the core of social issues—are grounded on the principle of ensuring the fundamental rights and dignity of all people are upheld. International human rights standards (e.g., Universal Bill of Human Rights, ILO Core Conventions, additional treaties on specific groups, etc.) set the benchmark for determining what rights and dignity are. Human rights standards are thus crucial for assessing socially material topics. This differs from the climate space, which tends to benchmark specific targets and goals. We recommend clearly specifying the international standards being used to define social topics in the Framework itself and continuously referring to ‘standards’ throughout the text (as opposed to just targets as is currently the case).

LOBBYING AND POLITICAL ENGAGEMENT

Identifying material impacts on people is not limited to impacts that occur across the value chain of a company. The UNGPs, which set out the globally authoritative approach to managing business impacts on human rights, makes clear that respecting human rights requires embedding human rights coherently across all business functions and activities, including lobbying (UNGP 16).

One significant way in which companies contribute to climate change and the associated financial risks for business is through lobbying and other forms of political engagement in ways that misalign with the businesses’ climate, human rights, and/or sustainability commitments. This includes lobbying through third parties such as trade associations. While the current draft briefly mentions this topic, (line 421, pg. 23), the need for disclosure on lobbying activities deserves a much more prominent role in the reporting framework.

While lobbying may often be financially lucrative, for example, by helping to reduce regulatory requirements related to emissions, it is essential to recognize that the use of undue influence through lobbying and other forms of political engagement is a root cause of the severe material risks facing companies as well as people and the environment. Insufficient attention to it as a material topic for disclosure risks undermining the effectiveness, impact, and credibility of the CDSB Framework.