CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

The Rise of the Social Pillar: An Introduction to the 'S' in ESG

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Introduction

Environmental, social and governance (ESG) issues are attracting increased attention globally in the private, public and not-for-profit sectors. This attention has begun to focus more strongly on the “social” pillar of ESG, with communities around the world experiencing inequities and injustices, and the devastating global impact of the COVID-19 pandemic. Stakeholders increasingly expect organizations to take responsibility for the impacts of their business on society; social matters are also a key area of focus for regulators and governments. Organizations now need to increase transparency and accountability for their social impacts, practices and performance.

With these rising demands from stakeholders and regulators, an opportunity has emerged for Chartered Professional Accountants (CPAs) to play a critical role: they can facilitate the integration of social factors into an organization’s strategy, in its risk and performance management, and into the reporting and assurance of relevant information.

The scope of social matters is broad and includes human rights; diversity, equity and inclusion (DEI); relations with Indigenous peoples and communities; public health and safety; and privacy and freedoms. This paper will explore the social pillar of ESG and provide direction to CPAs and other finance professionals as they navigate through the complexities of the diverse range of social factors impacting organizations.

1. What is the ‘S’ in ESG?

1.1 The broad universe of social factors

The social pillar of ESG comprises a wide array of factors and financially material risks and opportunities that may impact stakeholders, communities, employees and, ultimately, company value and investor decision-making.

Discussions of social factors examine how an organization manages relationships with, and supports resilience of, its employees, suppliers, customers and the communities it operates in, and how these groups impact operations (CPA Canada & A4S, 2021). However, it is not just about how organizations manage these various relationships, it is also about their actions to address social issues.

It is also important to note how the social aspect interrelates with the other pillars of ESG. For example, the transition to a low-carbon economy can cause social disruption particularly in sectors, cities and regions reliant on carbon-intensive industries and production.

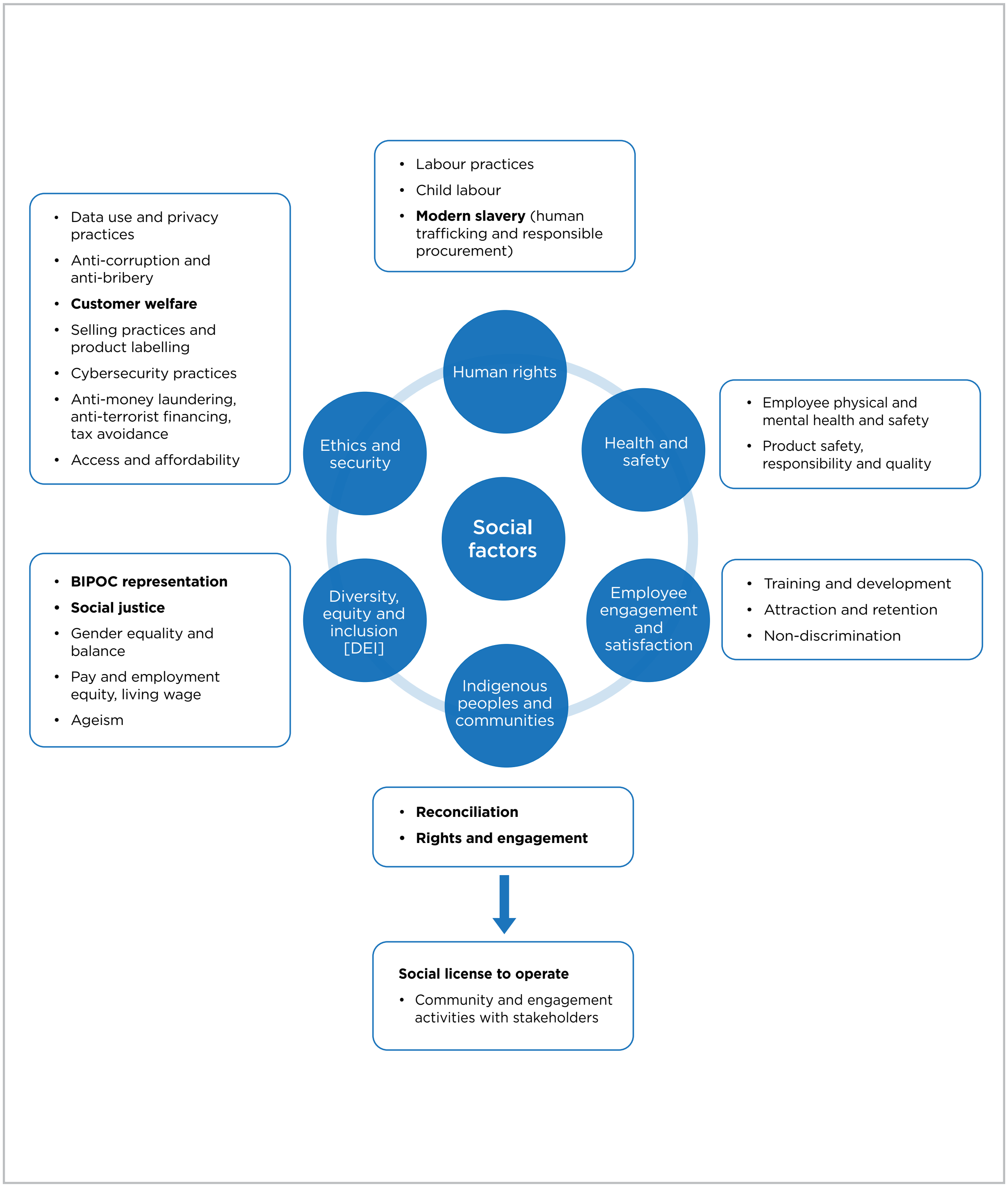
Figure 1 below depicts examples of social factors and includes the following areas:

- human rights
- health and safety
- employee engagement and satisfaction
- Indigenous peoples[1] and communities
- diversity, equity and inclusion
- ethics and security

These social factors can be further broken down into social sub-areas (i.e., the facets, nuances and issues that encompass each of these important areas). Additionally, certain factors may also fall under other categories; for example, governance. For purposes of this paper, select definitions have been provided in the **Key terms glossary** below in order to aid in the understanding and interpretation of some of the social factors in **Figure 1**.

1 Indigenous, or Aboriginal peoples, includes the following three groups: First Nations, Inuit and Métis.

FIGURE 1: THE BROAD UNIVERSE OF SOCIAL FACTORS



Key terms glossary – Select definitions from Figure 1

Customer welfare: benefits derived by the customer from the consumption of the good or service provided by the organization.

BIPOC representation: representation of black and Indigenous people and people of colour within the organization.

Social justice: justice in terms of the distribution of wealth, opportunities and privileges within a society.

Reconciliation, rights and engagement (see below for further information)**:** This concept includes two key components. First, it means establishing and maintaining a mutually respectful relationship between Indigenous and non-Indigenous peoples vis-à-vis an awareness of the past, an acknowledgment of the harm that has been inflicted, atonement for the causes and action to change behaviour.

Second, it means engaging in meaningful consultation whenever there is reason to believe policies or actions, directly or indirectly, might infringe actual or claimed Indigenous interests, rights or title.

Social licence to operate: This “licence” represents the acceptance and approval, or “social permission,” by local communities and stakeholders of an organization and its operations. It is the outcome of the way the organization manages social factors while engaged with the community and its stakeholders.

The key components of a social licence are legitimacy, credibility and trust. The term “social licence to operate” was first coined in the mining and extractive industries because of the heightened stakeholder and community awareness of the need for environmental protection and sustainability. The term is now commonly used to refer to the corporate social responsibility of any business or organization (Ethics Centre, 2018, January 23).

Modern slavery: exploitation such that a person cannot refuse to work or leave the job because of threats, violence, coercion, deception and/or abuse of power. The term covers practices such as forced labour and human trafficking (United Nations, n.d.).

Indigenous peoples rights and engagement

Truth and Reconciliation Commission of Canada: Calls to Action

While the range of social matters is extensive (as shown in **Figure 1**), Indigenous matters, including Indigenous rights and engagement, have a unique importance in the Canadian context.

In 2015, in order to redress the legacy of residential schools and advance the process of Canadian reconciliation, the Truth and Reconciliation Commission of Canada made 94 calls to action, including Recommendation 92, Business and Reconciliation (Truth and Reconciliation Commission of Canada, 2015).

> "We call upon the corporate sector in Canada to adopt the *United Nations Declaration on the Rights of Indigenous Peoples* as a reconciliation framework and to apply its principles, norms, and standards to corporate policy and core operational activities involving Indigenous peoples and their lands and resources. This would include, but not be limited to, the following:
>
> i. Commit to meaningful consultation, building respectful relationships, and obtaining the free, prior, and informed consent of Indigenous peoples before proceeding with economic development projects.
>
> ii. Ensure that Aboriginal peoples have equitable access to jobs, training, and education opportunities in the corporate sector, and that Aboriginal communities gain long-term sustainable benefits from economic development projects.
>
> iii. Provide education for management and staff on the history of Aboriginal peoples, including the history and legacy of residential schools, the *United Nations Declaration on the Rights of Indigenous Peoples*, Treaties and Aboriginal rights, Indigenous law, and Aboriginal-Crown relations. This will require skills based training in intercultural competency, conflict resolution, human rights, and anti-racism."

"Like any investment that may affect Indigenous lands, waters, territories, people, and/or rights, ESG criteria will only be successful if they are harmonized with Indigenous practices that are locally informed, environmentally sound, socially beneficial, governance inclusive, and aligned with the doctrine of 'free, prior, and informed consent' as found in UNDRIP."

Indigenous Sustainable Investment: Discussing Opportunities in ESG [PDF] (The First Nations Major Project Coalition, 2021).

The United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP)

The 46 articles of the United Nations Declaration emphasize the rights of Indigenous peoples to live in dignity, to maintain and strengthen their own institutions, cultures, and traditions and to pursue their self-determined development in keeping with their own needs and aspirations. The UNDRIP represents reconciliation in action and can only be achieved through open and transparent engagement.

The 46 articles are also directly linked to the 17 Sustainable Development Goals[2] (SDGs) and more than one-third of the 169 SDG targets (Alliance 2030, 2019, June 30). Following the principles in the 2030 Agenda for Sustainable Development will require eliminating inequities and collaborating with Indigenous communities.

Bill C-15

This Act of Parliament respecting UNDRIP received Royal Assent June 21, 2021. It affirms that UNDRIP “has application in Canadian law and provides a framework for the federal government to ensure that its laws are consistent with it.” Canadian organizations should carefully consider how UNDRIP’s calls to action may inform and impact their organization’s operations, policies and practices.

1.2 Why are social factors becoming increasingly important?

With real-time access to information via social media platforms, discussion around social matters can have potentially significant financial and reputational repercussions for an organization. This possibility was highlighted in part by the global COVID-19 pandemic from increased awareness of the inequalities within our society – especially with respect to women and minority ethnic groups.

Further, we have witnessed several events in Canada and elsewhere that have shone a light on critically important systemic social issues that must be addressed. Many, if not most, of these issues are long-standing and deeply rooted issues, such as racism, diversity and inclusion, treatment and rights of Indigenous peoples, unfair labour practices, and workplace health and safety, which have a disproportionate impact on certain demographics.

Stakeholder expectations

Stakeholders, including investors, business leaders, employees, customers, government and civil society have an increased awareness of social matters and are calling for demonstrable corporate action with respect to many social matters. Failure to make these changes can have an impact on an organization’s financial performance, market value and public opinion.

2 For more information on the SDGs, refer to the *Principles, goals and declarations* section below.

> “The more your company can show its purpose in delivering value to its customers, its employees and its communities, the better able you will be to compete and deliver long-term, durable profits for shareholders.”
>
> **“Larry Fink’s 2021 Letter to CEOs”** (BlackRock, 2021).

The promotion of an economy that serves all is often referred to as **stakeholder capitalism**. In stakeholder capitalism, companies seek long-term value creation by considering the needs of all their stakeholders (e.g., customers, employees, partners, the community, etc.), and society at large (Schwab, K. & Vanham, P., 2021, January 22).

The ultimate objective for organizations under stakeholder capitalism will be to reshape their business models to integrate ESG risks and opportunities throughout all aspects of business. This will necessitate new management approaches and different tools, methods and standards to capture and report on performance in an integrated, holistic way.

As stakeholder expectations continue to evolve, the pressure on organizations to report on their social performance also grows. Stakeholders are demanding transparency and accountability beyond traditional financial reporting. “S” has now moved to front-of-mind for investors and is high on the agenda for company stakeholders and society (Neilan & Fitzpatrick, 2020, June 28).

> “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 issues such as human rights, labour standards and gender equality – and the risks and opportunities they present to investors – are starting to gain prominence.” ***ESG Integration: How are Social Issues Influencing Investment Decisions?*** (United Nations Principles for Responsible Investment, n.d.).

Fuelled by the investment community and broader stakeholder groups, global capital markets and asset managers have begun integrating social metrics into their investment and lending decisions. **Sustainable finance** is the term used to refer to the capital flows (as reflected in lending and investment), risk management activities (e.g., insurance and risk assessment), and financial processes (including disclosures, valuation and oversight) that integrate these metrics as a means of promoting sustainable economic growth and the long-term stability of the financial system (Minister of Environment and Climate Change, The Expert Panel, 2019).

As a subset of sustainable finance, **impact investing** is when investors pursue strategies that create positive environmental or social benefits, in addition to strong investment returns (Rodeck, Schmidt, 2021, October 26). Impact investing aims to advance specific environmental or social causes and generate positive effects and outcomes. Various instruments are available that allow companies to tie their performance on social matters to financing. Some examples of these types of sustainability-linked financial instruments are as follows:

- **Social bonds** raise funds for social projects designed to achieve greater social benefits. Social projects address specific social issues that threaten, hinder or damage the well-being of society or a specific target population.
- **Sustainability-linked bonds** have specific financial or structural characteristics linked to the issuer’s sustainability objective. Success or failure in achieving specific sustainability targets can increase or decrease borrowing costs.

CPA Canada insight

Social washing is a growing area of risk that occurs when a company exaggerates, falsifies or misrepresents the impact of an investment or social commitment and where it may attempt to appear more socially responsible than it actually is.

To avoid social washing, organizations need a common understanding of the social pillar along with commitments and metrics for measuring and disclosing social factors and initiatives.

“Social Washing’ a Growing Headache for ESG Investors” (Marsh, 2021, April 9).

Social purpose

The phenomenon of social-purpose organizations is growing (Strandberg, C., n.d.). By extending beyond corporate social responsibility (also known as “CSR”) to achieve long-term business success, social-purpose organizations:

- set goals beyond their current operations and the foreseeable future
- act on environmental, social and economic risk and opportunities
- harness assets, resources, people, capital, influence, relationships and scale to accelerate positive business and social growth

What is a social purpose business?

“A Social Purpose Business is a company whose enduring reason for being is to create a better world. It is an engine for good, creating social benefits by the very act of conducting business. Its growth is a positive force in society.”

***What is a Social Purpose Business?* [PDF]** (United Way Social Purpose Institute, n.d.).

Similarly, a **sustainable business** is a business that delivers financial returns in the short and long term in a way that generates positive value for society and the environment, operates within environmental constraints and contributes to the ongoing resilience of social and environmental systems (CPA Canada & A4S, 2021).

As interest in social matters continues to grow and evolve, Canadian businesses have a great opportunity to increase their competitiveness by embedding the management of social issues into their strategy and business processes. A thriving society and a globally competitive economy will require inclusivity and reimagined business models and frameworks that are uncompromising in their efforts to win both socially and economically.

Principles, goals and declarations

The United Nations (UN) provides various principles, goals and declarations, which address social matters. One example is the **Sustainable Development Goals (SDGs)**. The 17 SDGs and 169 specific targets within these are aspirational goals to be achieved by 2030. They are nonbinding on both national governments and corporations but set out an ambitious plan of action in five areas:

- people
- planet
- prosperity
- peace
- partnership

It is crucial for organizations that engage in the SDGs to embed relevant goals into their strategy and operations, set ambitious targets, and measure and manage impact and contribution in a transparent way. Organizations can contribute to sustainable development in the following ways (Sengupta, 2021, January 12):

- looking after the well-being and health of their employees (Goal 3)
- knowing the conditions under which their supply chains operate (Goals 8, 12)
- being aware of measures that reduce their company's carbon footprint (Goal 13)
- paying employees fairly and in a gender-neutral way (Goals 5, 8)

The **United Nations Global Compact** (UNGC) provides resources and tools for organizations to implement and advance the SDGs. The UNGC believes that sustainability begins with a principles-based approach to doing business. These principles, **The Ten Principles of the UN Global Compact**, can be incorporated into an organization's strategy, policies and procedures to establish a culture of integrity; uphold basic responsibilities in the areas of human rights, labour, environment and anti-corruption; and set the stage for long-term success.

2. Challenges, Opportunities, and the Role of the CPA

As the focus on social matters sharpens, organizations need to evolve their underlying business and reporting practices to meet the growing demand for action and transparency. Organizations have an opportunity to make meaningful advancements with respect to key social matters both within the organization, as well as in the broader communities in which they operate.

To develop sound social practices, organizations will need to address the following key questions:

- What social matters are most important to the organization, investors, and broader stakeholder groups (e.g., local communities in which they operate, global supply chains)?
- Does the organization understand the social risks, uncertainties and opportunities in their markets and can it adjust its business model to address them?
- How does the organization's business model contribute to positive or negative outcomes for its customers and the communities in which it operates?
- How does performance on social issues impact an organization's financial results and access to capital?
- Where does the organization stand on key social matters and what are its goals for achieving important social outcomes?

> "Effective management of E&S factors can produce a range of benefits including improved risk management; enhanced business resilience; cost savings and increased revenue streams through innovative products; an advantage in attracting, retaining, and motivating employees; enhanced brand reputation and customer loyalty."
>
> ***A Primer for Environmental and Social Disclosure*** (CPA Canada, 2020).

Some key opportunities that organizations can benefit from when focusing on social matters include:

- attracting and retaining highly skilled employees and organizational partners with shared values
- being proactive and definitive in communicating the organization's position and initiatives in key social areas, as opposed to being merely reactive in response to public inquiries
- contributing meaningfully to important social matters and sustainable development inside and outside the organization
- disclosing and reporting consistent, comparable and verifiable sustainability information to providers of financial capital for decision-making
- including social information in financial reporting to create an integrated understanding of enterprise value

> "Changing expectations of corporations by investors, employees and consumers are forcing companies of all sizes to increasingly account for social risk – the material risks to a company from major social trends – pushing sustainability further into the orbit of finance departments."
>
> ***CPAs and the New Social Contract – The Rise of the Warrior Accountant* [PDF]** (CPA Ontario, 2021)

CPAs have a unique opportunity to influence and inform decision-making by guiding organizations in the management of social matters. Because professional accountants play significant roles in governance, risk management and control, as well as in business analysis and decision support, they can help organizations meet the following objectives:

- identifying which social matters are material to the organization and what social information / data to report on, including determining materiality of social matters for regulatory purposes and developing metrics to measure impact and performance
- aligning corporate activities with social goals, benchmarking disclosures and key performance indicators against domestic and foreign industry peers
- strategic planning and budgeting and external reporting for the social initiatives
- evaluating performance on social issues through the supply chain (KPMG, 2020, December)
- managing competing investor and other stakeholder demands for voluntary disclosure, including determining under which of the various voluntary disclosure frameworks to report
- establishing appropriate processes, policies, data collection systems, and internal controls to capture and report meaningful, complete, accurate and timely social information and, most importantly, measuring the impact of these social factors

- providing consistent, comparable and assurable information in the capital markets
- playing a significant role in the global agenda to achieve the United Nations' Sustainable Development Goals[3] (SDGs) by 2030.

3. A Case for Finance: Social and Human Capital Accounting

Human Capital: the knowledge, skills and attributes of the organization's workforce and others across the value chain.

Social Capital: the value added to society by an organization's products, services, and activities, as well as the relationships within and among communities, groups of stakeholders and other networks.

A4S Essential Guide to Social and Human Capital Accounting [PDF] (CPA Canada, n.d.).

The Canadian Chapter of the Accounting for Sustainability (A4S) CFO Leadership Network works with Chief Financial Officers (CFOs) and their teams across Canada to integrate economic, environmental and social issues into business strategy, processes and decision-making.

To demonstrate how the Chapter's operations were impacting society and the environment, and what was being done about it, organizations from the Canadian Chapter implemented the guidance in The Prince's Accounting for Sustainability Project's *A4S Essential Guide to Social and Human Capital Accounting*.

As a result, the following worked examples illustrate how finance teams and professionals can account for social and human capital to make more informed business decisions and link that capital to their organization's goals of building resilient and sustainable business models:

- Brookfield Asset Management undertook a fair market valuation for its most important asset – the workforce.
- The Co-operators Group believes the mental wellbeing of its employees is critical to the effectiveness of the organization, so it launched an internal mental health initiative.
- Manulife Financial Corporation defined and measured the value of its human capital because traditional business reporting focused solely on financial and operational factors.
- Workplace Safety and Insurance Board (WSIB) recognized the value of its employees by investing in an internal mental health strategy.

3 For more information on the SDGs and the role of the professional accountant, refer to the publication by the International Federation of Accountants (IFAC) (reproduced by CPA Canada), *The 2030 Agenda for Sustainable Development: A Snapshot of the Accountancy Profession's Contribution.*

In addition to the A4S guidance, the Capitals Coalition's Social and Human Capital Protocol is a framework available for businesses to measure and value their impacts and dependencies on people and society. It supports effective business decision-making and communication of the full value business generates for society.

While the intent of social and human capital accounting is to encourage comprehensive identification, measurement and valuation of social and human capital, it is also important to recognize the significant challenges to valuing these resources on the balance sheet.

For example, how is the value of an exceptionally engaged workforce entered on the balance sheet? What is the other side of the entry? Unlike in traditional accounting, these resources are not transaction-based or financially rooted in one or more discrete and identifiable economic transactions; their value cannot change after the initial transaction takes place as in the case of loans, investments and various liabilities.

Once an organization can overcome the challenges of measuring and assessing the value of these capitals, there is a great opportunity to use this data to create long-term business value and respond to stakeholder needs.

4. Current Disclosure Landscape

ESG disclosure practices are notably diverse in terms of the type of information that is reported, and where it is reported, which can range from regulatory filings to corporate sustainability reports and other disclosures on organizations' websites.

No single set of universal sustainability standards has yet been accepted. Currently, several bodies have produced voluntary ESG guidelines, standards and frameworks, and work continues toward harmonization. To address these concerns, steps have been taken by the International Financial Reporting Standards (IFRS) Foundation to develop a single global set of sustainability disclosure standards to meet investors' information needs, as highlighted in **Section 4.3**. Many jurisdictions also now require disclosure of material ESG information.

If ESG requirements are introduced without a solid understanding of the strategic importance of social factors to business models and organizational performance, disclosure efforts will prove to be more challenging and will lack integration with broader organizational practices and strategic priorities.

4.1 Voluntary guidelines and standards disclosure

When disclosing social factors, organizations often reference several available voluntary frameworks and standards. According to a 2020 global sustainability reporting survey by KPMG (KPMG, 2020, December), Global Reporting Initiative (GRI) remains the most commonly used reporting standards, along with the Sustainability Accounting Standards Board (SASB)[4] standards and the International Standards Organization (ISO) standards for sustainability reporting.

Depending on the organization's needs and stakeholders, it may choose to use one or a combination thereof. It's difficult, however, for organizations to choose one framework that meets the demands of all the different stakeholders. The variety of frameworks also creates issues with consistency and comparability across organizations and industries.

The callout box below includes a summary of the commonly used voluntary standards.

Voluntary frameworks and standards that include social factors

Global Reporting Initiative

The social dimension covered by the **GRI 400** standard series offers metrics for a broad range of users. GRI recently launched a revised set of universal standards for sustainability reporting that aim to deliver more transparency in organizations' reporting on their effects on the economy, environment and people, including their impacts on human rights.

Value Reporting Foundation

- The human capital and social capital covered by the Sustainability Accounting Standards Board **(SASB) standards** offer industry-specific metrics designed for investors. The **SASB Materiality Map®** is an interactive tool that identifies and compares disclosure topics across different industries and sectors.
- The **Integrated reporting framework (<IR> Framework) of the International Integrated Reporting Council (IIRC),** establishes guiding principles over a set of capitals, including human capital and social and relationship capital.

International Standards Organization (ISO) Guidance on Social Responsibility

The **ISO 26000** series provides guidance on social responsibility for organizations in the public and private sectors.

For more information on sustainability reporting frameworks and standards, refer to ***CPA Canada's Sustainability Assurance Alert***.

4 The SASB and the Integrated reporting framework (<IR> Framework) of the International Integrated Reporting Council (IIRC) merged to form the Value Reporting Foundation in June 2021. The Value Reporting Foundation will consolidate with the IFRS® Foundation by June 2022.

4.2 Regulatory disclosure

Although voluntary frameworks have been discussed, it is important to remember the existing regulatory compliance and disclosure requirements for a Canadian reporting issuer (issuer).

Examples of specific social-related disclosure requirements under Canadian securities law include the following:

- If an issuer has implemented social policies that are fundamental to its operations, such as policies with the communities in which it does business, or human rights policies, it should describe the policies and the steps it has taken to implement them in its *Annual Information Form* (AIF).[5]
- Subject to certain exceptions, an issuer listed on the Toronto Stock Exchange (TSX), and certain other non-venture issuers, are required to provide certain disclosure on an annual basis regarding women on boards and in executive-officer positions.

Materiality definition – Canadian securities law

For purposes of the AIF and MD&A, information is likely material if a reasonable investor's decision whether to buy, sell or hold securities in an issuer would likely be influenced or changed if the information in question was omitted or misstated. Securities legislation imposes a different test for materiality in other contexts.

CSA Staff Notice 51-358 *Reporting of Climate Change-related Risks* (Canadian Securities Administrators, 2019, August 1).

In addition to the examples of explicit "social" disclosure requirements under Canadian securities law noted above, other broad requirements capture disclosure of material social matters. For example:

- disclosure in the management's discussion and analysis (MD&A) of commitments, events, risks or uncertainties that the organization reasonably believes will materially affect its future performance.[6]
- disclosure in its AIF of material risk factors relating to the company and its business.[7]

Social matters may be captured under a broad range of risks, such as litigation, regulatory and reputational risks. Some examples of how social matters may lead to material risks in these areas include (Fasken Institute, 2020, July 20):

5 Item 5.1(4) of Form 51-102F2 *Annual Information Form*.

6 Item 1.4 of Form 51-102F1 *Management's Discussion and Analysis*.

7 Item 5.2 of Form 51-102F2 *Annual Information Form*.

- **litigation risk:** arising from a company's practices that impinge on human rights, such as the use of child labour or inhumane working conditions
- **regulatory risk:** arising from violations of domestic or international laws related to corruption and bribery of foreign officials
- **reputational risk:** arising from conflicts with local communities in which the company operates

Recent developments

Legislated and regulatory social disclosures requirements in Canada have increased over the past year. Recent international regulatory developments signal that regulators are also keen to make sure regulatory requirements keep up with the growing demand. Canadian examples include:

- Bill C-25, an Act to amend the *Canada Business Corporations Act* (CBCA), the *Canada Cooperatives Act*, the *Canada Not-for-profit Corporations Act* and the *Competition Act*, was passed. Effective January 1, 2020, Bill C-25 requires that companies governed by the CBCA disclose information on the representation of women, Indigenous peoples, people with disabilities and members of visible minorities on their boards and among senior managers.
- In May 2021, the Canadian Securities Administrators (CSA) announced further research and consultations with issuers, investors and other industry stakeholders on its consideration of broader diversity on boards and executive officer positions. The CSA has indicated: "This work will help determine whether, and how, the disclosure needs of Canadian investors, and corporate governance practices among public companies have evolved since the 'women on boards' disclosure requirements were first adopted in most CSA jurisdictions" (Canadian Securities Administrators, 2021, May 19). The consultations will inform further policy-making in this area.

Canada-U.S. cross-listed companies

Given that many Canadian companies are cross-listed on U.S. exchanges, it is important to note recent developments in the U.S.

In August 2020, the U.S. Securities and Exchange Commission (SEC) amended item 101(c) of Regulation S-K to introduce a requirement for companies it regulates to describe their human capital resources and include in this description any human capital measures or objectives it focuses on in managing the business, to the extent such disclosure would be material to the understanding of the business taken as a whole.

4.3 Movement toward global sustainability standards

> "Currently, there are multiple reporting frameworks related to sustainability and variability in reporting approaches. The business landscape has evolved to the point where a global common solution is needed. An ISSB will reduce complexity and establish a common playing field with high-quality global standards for ESG reporting. Importantly, this initiative has been strongly supported by international securities regulators."
>
> **"CPA Canada Urges United Effort Domestically to Support International sustainability Standards Board"** (CNW Group/CPA Canada, 2021).

While there are currently several bodies producing frameworks and recommendations on sustainability reporting, the world has not yet coalesced around a universal set of standards. There are concerns regarding the consistency, comparability and relevance of sustainability information. In late 2020, the IFRS® Foundation issued a formal consultation paper on sustainability reporting and whether there was a need for global sustainability standards in the corporate sector.

Response to the consultation confirmed the growing and urgent demand for global sustainability reporting standards. In March 2021, the IFRS Foundation confirmed its intent to establish an International Sustainability Standards Board (ISSB) with the following strategic direction:

- Focus on information material to investors, lenders and other creditors.
- Initially focus effort on climate-related matters while working toward meeting the information needs of investors on other sustainability matters.
- Build on the well-established work of the Task Force on Climate-related Financial Disclosures (TCFD) and the multiple reporting frameworks and standards related to sustainability.
- Work with standard setters from key jurisdictions to provide a globally consistent and comparable sustainability reporting baseline.

In November 2021, the IFRS Foundation Trustees announced the creation of a new standard-setting board – the ISSB – and indicated the release of a draft set of global climate standards in 2022.

The IFRS Foundation will complete consolidation of the Climate Disclosure Standards Board (CDSB, an initiative of CDP) and the Value Reporting Foundation (VRF, which houses the Integrated Reporting Framework and the SASB Standards).

CPA Canada insight
As momentum continues to build towards global standardization of sustainability reporting, an opportunity exists for the IFRS Foundation to create consistency in the understanding and reporting of social factors by clearly defining terminology and providing meaningful metrics for companies to measure and disclose.

5. What's Next

Understanding the various aspects of the social pillar of ESG is challenging because it is a complex area with a wide range of multidimensional issues. As the focus on ESG continues to evolve, CPA Canada will continue to explore this area and plan further research. This may include research on specific social matters, key performance indicators, and impact assessment tools and approaches to help inform decision-making, which will contribute to the long-term success and sustainability of organizations and better outcomes for society.

5.1 How to get involved: CPA Canada wants to hear from you!

Are you actively engaged in managing, measuring and reporting performance related to social factors? CPA Canada is conducting further research in this area and if you are interested in getting involved, please contact:

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