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Launch of the Taskforce on Inequality and Social-related Financial Disclosures

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The Taskforce on Inequality and Social-related Financial Disclosures ("**TISFD**") launched on 23 September 2024.

Background

The TISFD is a global initiative with the aim of developing recommendations and guidance for businesses and financial institutions to report on inequality and social-related financial risks, opportunities, impacts and dependencies ("**TISFD Disclosure Framework**"). The TISFD Disclosure Framework complements existing reporting frameworks, including the Taskforce on Climate-related Financial Disclosures ("**TCFD**") and the Taskforce on Nature-related Financial Disclosures ("**TNFD**"). To this extent, TISFD seeks to develop a holistic disclosure framework on climate, nature, social and inequality-related risks and impacts to create more transparent and stronger societies and economies.

How will the TISFD Disclosure Framework work?

The principles underlying the TISFD Disclosure Framework have not been finalised but it is expected that the focus will be on social issues and inequalities that are relevant to a large range of reporting entities and which will allow for effective management by businesses and financial institutions of risks, opportunities and impacts at entity-level. As with the EU's Corporate Sustainability Reporting Directive ("**CSRD**"), the TISFD Disclosure Framework is expected to be compatible with the impact of inequality and social-related matters on a company as well as the impact of the company on those matters. The TISFD Disclosure Framework is also expected to address materiality of system-level risks in connection with inequalities and social-related issues.

The TISFD has announced the appointment of its co-chairs and the proposed establishment of a multi-stakeholder Steering Committee which will oversee the work of the TISFD Secretariat and will also introduce Working Groups with specific mandates. The TISFD Alliance (a global multi-sector group of organisations) will provide input and recommendations to the TISFD. The TISFD's work will also be influenced by the TISFD's founding partners, including organisations across the public, social and private sectors. The TISFD is also considering avenues through which it will engage with stakeholders.

What does this mean for fund managers?

The TISFD Disclosure Framework, once developed, has the potential to become regulatory reporting requirements for financial market participants, including fund managers and investment advisers, in a range of jurisdictions in the same manner the TCFD recommendations are now a regulatory reporting requirement of the Financial Conduct Authority for many UK asset managers and owners. Alternatively, they could become a reporting requirement through a jurisdiction's endorsement and adoption of the International Sustainability Standards Board ("**ISSB**") reporting standards ("**ISSB Reporting Standards**"), which may build into them the TISFD Disclosure Framework, as they have done with TCFD and are committed to do so with TNFD.

It should be noted that the TISFD only recently launched and therefore the expectation that the TISFD Disclosure Framework will be embedded into the ISSB Reporting Standards is less concrete than the expectation for the ISSB to integrate the TNFD recommendations, which are complete and have since been adopted by the ISSB (for more information on the TFND, please refer to our dedicated article on this topic here).

What are the ISSB Reporting Standards which the TISFD might form part of?

The ISSB are voluntary global standards, which at present only focus on climate through the embedding of TCFD, that jurisdictions or regulators can adopt to make mandatory or companies or financial market participants can voluntarily comply with.

There is general momentum for the ISSB Reporting Standards and the intention and vision of the path for TISFD Disclosure Framework to become part of them in due course is evident. So far, more than 20 jurisdictions making up around 75% of global market capitalisation have announced plans to or have already taken steps to endorse and adopt the ISSB Reporting Standards into national laws. The UK has been a strong supporter of the ISSB Reporting Standards and is currently undergoing an official assessment of them, before expected endorsement and adoption in 2025. In the event that the ISSB does integrate the TISFD Disclosure Framework into the ISSB Reporting Standards, this would result in the TISFD Disclosure Framework being applicable in the UK via the ISSB adoption.

The Securities and Exchange Commission ("**SEC**"), despite being a member of the International Organization of Securities Commission ("**IOSCO**"), has not recognised the ISSB or made steps to adopt the ISSB Reporting Standards. However, with the SEC's own climate rules delayed there has been an increasing call by some U.S. investors for the ISSB Reporting Standards to be considered to give clarity and certainty on sustainability-related reporting.

The EU's CSRD covers social-related reporting and for fund managers or businesses with a global footprint that derives significant EU turnover bringing them in scope of CSRD reporting, the third country reporting standards, which have been delayed, are in demand. It remains a wait and watch to see if there will be interoperability between the ISSB Reporting Standards and CSRD.

Next Steps

The TISFD's scoping paper ("**Scoping Paper**") outlines the proposed scope, governance and work plan for the TISFD. The next step is to establish the governance bodies of the TISFD, including appointing the Steering Committee and Secretariat and establishing the TISFD Alliance. The Scoping Paper can be found here.

So far, the TISFD appears to be a welcome development supported by important ESG parties, including the World Benchmarking Alliance, the Global Reporting Initiative and various United Nations agencies. Given the support that the TISFD has received, the expectation that the TISFD Disclosure Framework will be embedded into the ISSB Reporting Standards and the number of nations looking to endorse the ISSB, it is expected that the TISFD Disclosure Framework will have a significant influence towards creating globally comparable sustainability-related disclosures for investors.

For further information on the launch of TISFD please reach out to UKRegulatory@proskauer.com.

View original.

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