

30 July 2024

The Working Group
Taskforce on Inequality and Social-related Financial Disclosures

By email only: info@tisfd.org

Dear Working Group Members

TISFD Proposed Governance Model

Deloitte Touche Tohmatsu Limited (Deloitte) welcomes the opportunity to provide comments on the proposed governance model for the Taskforce on Inequality and Social-related Financial Disclosures ('the Taskforce' or 'TISFD').

We welcome the formation of the Taskforce as a way of convening a wide group of social, including human capital, experts and creating greater cooperation in the critical field of reporting to investors and other stakeholders on inequality and social-related, including human capital, matters. We recognise the significant global representation and expertise of the TISFD Working Group. We support its intention that the Taskforce should strengthen the development of social and inequality-related financial disclosures and for it to be available as a knowledge partner to standard-setters including the International Sustainability Standards Board and the Global Reporting Initiative, rather than itself seeking to be a standard-setter. This statement is welcome, as it should dispel fears that the Taskforce would create yet another disclosure framework, but rather will work to deliver focused inputs to the recognised sustainability-focused standard setters.

Whilst we acknowledge that the Taskforce is a limited-life entity with a defined scope and mandate, we think it important that its governance be sufficiently robust to support high-quality outcomes. This is critical to maintaining the Taskforce's legitimacy with all stakeholders and confidence in the processes it follows in developing its recommendations.

We generally support the Working Group's proposals, although we have specific comments concerning the size and composition of the Stewardship Council. In particular, we think that it should be independent of the Steering Committee and the Secretariat, given the critical oversight role that the Stewardship Council has in the organisation.

Our detailed responses to the questions in the Proposed Governance Model are included in the Appendix to this letter.

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Should you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7936 3000.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V Poole', with a long horizontal flourish extending to the right.

Veronica Poole
Deloitte Global IFRS and Corporate Reporting Leader
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Appendix: Detailed responses to the Invitation to Comment

A. Defined TISFD Stakeholder Categories

We are committed to balanced stakeholder representation in terms of background, gender and geographies, as well as diversity, equity, and inclusion across the Taskforce's bodies, including its decision-making bodies, namely: the Steering Committee, the Stewardship Council, and the Working Groups. Achieving balanced stakeholder representation requires that we first define TISFD stakeholder categories to be represented within these bodies.

The following table contains a list of proposed TISFD stakeholder categories and subcategories. The third column indicates the proposed number of seats to be allocated to individuals with this background who will sit on the Steering Committee, the TISFD's main decision-making body, along with four Co-Chairs, who will also be representative of the stakeholder groups (fourth column).

Category	Subcategory	# Steering Committee Members	# Co-Chairs
Communities	• Human rights defenders/advocates; community organizations	3	1
	• Field Building civil society organizations.	2	
	• Indigenous peoples	1	
Investors	• Asset owners/Allocators ¹	3	1
	• Asset managers - marketable securities ²	1	
	• Asset managers - private capital	1	
	• Diverse and emerging funds managers	1	
Business	• Large enterprises	2	1
	• Small and medium-sized enterprises (SMEs)	2	
	• Micro-enterprises	1	
	• Informal sector	1	
Workers	• Workers organizations (aiming at a mix in terms of sectors, national/regional/international, and geographies)	6	1
Others	• International organisations	2	
	• Individuals that can bring other relevant experience to support the development, uptake, and/or piloting of the TISFD framework, and do not fit into the other categories nor compromise the stakeholder balance of the committee.	2	
Total		28	4

To ensure that TISFD remains relevant to ongoing standards development, the Secretariat's Engagement Team will have staff dedicated to regular engagement with policy makers, regulators, and standard setters.

Researchers at universities, think tanks, and service providers are also important TISFD stakeholders. They will be encouraged to join the Alliance and may serve on a Working Group. It is anticipated that a Research Network will be established within the Alliance as a resource to both the Working Groups and the Technical Team within the Secretariat. Government representatives will be welcome to contribute to the Taskforce as members of the Alliance and Working Groups.

Questions

Please explain your answers to the following questions. The process by which Taskforce decisions are made also determines informed and effective decision-making. This topic is addressed below, and respondents may wish to answer the questions together.

1. Are these the correct stakeholder categories and subcategories to have seats on the Steering Committee to ensure informed and effective decision-making? If any of these categories or subcategories should not sit on the Steering Committee, where should they sit instead (e.g., in the Alliance or a sub-group of the Alliance)?

The proposed Steering Committee membership categories and sub-categories should capture the breadth and depth of expertise that the Taskforce needs to harness in order to achieve its objectives within the 24-month window it has set itself. We think that the components of the various Categories are appropriate and would be able to capture a wide range of backgrounds, experience and geographies.

Within the Business category, we are not completely convinced that the informal sector (whilst significant overall), and to some extent micro-enterprises, cannot make their voice heard more effectively at the Working Group level, and urge some flexibility here (see also our response to question A2, below). In particular, the informal sector might be represented through the 'Workers' category.

We say this primarily because of the Working Group's statement that the Taskforce 'will prioritize disclosure recommendations that are of general relevance and/or that most meaningfully allow users of information to respond to widespread or significant social and inequality-related risks, opportunities and impacts,' given that a primary focus of the Taskforce's output will be 'regulators and policy makers, companies, and investors.'¹

¹ TISFD Proposed Scope and Mandate, 1 *Thematic Scope*.

2. Are these the appropriate representative numbers per stakeholder subcategory to ensure a balance of viewpoints needed for informed and effective decision-making?

Whilst we recognise that the representative numbers per stakeholder subcategory is a way of ensuring a balance of stakeholder backgrounds, gender and geographies, we recommend avoiding absolute matching of seats to constituent bodies, allowing the Nominating Committee some flexibility in appointing Steering Committee members. Thus, for example, the Communities' six seats should be drawn from the three subcategories, but without ascribing absolute numbers to any, with the proviso that the Taskforce's overriding principle of balancing power is respected. This could be done by saying that 'up to 3 seats' would be available to Human rights defenders/advocates; 'up to 2 seats' to Field Building civil society organisations, and 'at least 1 seat' to Indigenous peoples.

Ultimately, we do not believe it to be a desired outcome that a highly qualified candidate is excluded because they did not fit neatly into a particular slot. We note that the IFRS Foundation has utilised this approach effectively in its governance and appointments processes.

3. Is this an appropriate total number of stakeholders to ensure informed and effective decision-making within the Steering Committee?

The proposals for the size and composition of the Steering Committee appear to balance the Taskforce's need for stakeholder representation whilst respecting diversity, equity and inclusion across its stakeholder categories. In our view, the proposals are appropriate for a representative organisation of this type.

We note that the proposed size is comparable to the Taskforce on Climate-related Financial Disclosures and slightly smaller than the Taskforce on Nature-related Financial Disclosure. As such, the Steering Committee's proposed size builds on proven models of organisations pursuing similar goals.

4. If international organisations that are custodians for the international standards on responsible business conduct (OECD, OHCHR, ILO) have a seat on the Steering Committee, should they have voting rights?

In our view, it is important that the Steering Committee should be independent of those bodies whose standards and guidance it is considering using to meet the Taskforce's objectives.

Consequently, our view is that international organisations that are custodians for the international standards on responsible business conduct should participate in the Steering Committee as Official Observers, with full rights of participation, but without a vote. As custodians of their own standards and guidance, they should be able to explain how and why their standards are as they are and, importantly, what other approaches were considered and why those were rejected or adapted.

This approach ensures the active participation by organisations such as the Organization for Economic Cooperation and Development, the Office of the United Nations High Commissioner for Human Rights and the International Labour Organization, enabling the Steering Committee to make fully informed decisions drawing on the experience of these organisations, whilst preserving its own technical independence.

Should they be able to choose their representative?

Ideally, an Official Observer should put forward at least two (even three) possible candidates, so that the Nominating Committee is better able to meet its overarching commitment to maintaining balanced stakeholder representation and power balance. However, it would not be appropriate in our view to prevent an Official Observer organisation proposing the most appropriate person who has the motivation and interest to fill the role.

B. Stakeholder Representativity on the Steering Committee

The Steering Committee, consisting of 32 members including the four voting Co-Chairs, is the main decision-making body of the Taskforce tasked with delivery of the TISFD objectives and workplan.

Once the stakeholder groups for Taskforce decision-making bodies are determined (see A, above), we will need to decide on the model of stakeholder representation of the Steering Committee. We have outlined three models below, each with their benefits and drawbacks. (Note that stakeholder affiliation will be determined by the candidate's background, public recognition of affiliation, and self-identification.)

1. A model with representation, where the Steering Committee member is identified as aligned with a particular stakeholder group in the Alliance and is expected to represent their views on the Steering Committee. This is sometimes known as a Caucus model in which interest groups, or “caucuses”, are stood up that may meet separately on Taskforce developments, share views, and develop positions. Alliance members may sign up for a Caucus or they can choose to be considered independent.
 - Pro: Provides a formal stakeholder approach to representation.
 - Con: Makes it harder to collaborate and take personal experience into account; may have the effect of encouraging acting along “party lines” and polarization; may artificially divide those people that identify with more than one group.
2. A model with stakeholder groups but no representation. Steering Committee members are expected to meet with and consult regularly with the stakeholder group, within and outside of the Alliance with which they are identified, but there is no expectation of representation. Alliance members may affiliate with a stakeholder group, or they can choose to be considered independent.
 - Pro: Generally representative and aligned with stakeholder balance, but less restrictive.
 - Con: Potential loss of legitimacy for Steering Committee members who are not reflecting the reviews of the stakeholder group; may need to make recourse available.
3. Governance model without stakeholder groups where the Alliance is not structured by stakeholder groups (or caucuses) and Steering Committee members are free to seek out and consult members of any stakeholder group including the one with which they are identified.
 - Pro: Reduces governance complexity, increasing agility in decision-making. Potential to facilitate dialogue and build bridges between stakeholder groups who might otherwise be polarized.
 - Con: Potential loss of legitimacy; stakeholders will find one another anyway which could result in less clarity regarding views held across the Alliance

Questions:

1. Which model would you recommend? Why?

In our view, the optimum approach is somewhere between Approaches 2 and 3. In the context of the Taskforce's ambition and tight delivery time frame, Stakeholder groups are a useful way to organise the Taskforce's constituencies and assist the Nominating Committee's need to respect its balanced stakeholder representation and power balance obligations.

The strict caucus model of Approach 1 could lead to sub-optimal decision making, with stakeholders feeling compelled to vote in line with their caucus rather than for a solution that might be better overall, or to unhelpful outcomes where particular vested interests are asserted over the interest of the overall objective.

Approach 2 maintains the connection with the stakeholder groups, and for this reason we suggest keeping this aspect of Approach 2. However, once appointed, Steering Committee members should be encouraged to work not only with their constituents but also to collaborate with others with different experience and viewpoints, working together towards optimum solutions.

Consequently, and consistently with our advocacy of some flexibility in appointing Steering Committee members in part A, above, we think appointing the Steering Committee utilising Stakeholder Groups, ensuring appropriate representation across the stakeholder groups is essential, but then the members

should be free to act in the best interests of the outcome. To us, this combines the best of the representation model with the flexibility to combine all talents and achieve the best possible result, informed by all points of view.

With respect to the Consultation's concerns about legitimacy, we think that legitimacy can be preserved if the Steering Committee is seen to consider all views fairly when developing its proposals, to consult with stakeholders in an open and transparent manner as work progresses, and to consider views expressed by stakeholders in an honest and neutral manner, consistent with the aims of the project concerned and the Taskforce generally.

2. Is there another model you would recommend that would better enable inclusive governance in line with TISFD's Governance Principles?

Please see the answer to Question B1 above.

C. Responsibility for Developing Taskforce Deliverables

We are considering the roles, responsibilities, and relationships among the Taskforce Steering Committee, the Working Groups, and the Secretariat. We see the Working Groups as a key site for co-creation within the Taskforce and propose that the Steering Committee, in consultation with the Secretariat and the Alliance, will stand up Working Groups with specific mandates. The Steering Committee will field diverse subject matter experts representing a balance of stakeholder groups through a call for interested Working Group members and co-leads.

We suggest the following dynamic between the Working Groups and the Secretariat's Technical Team: The Working Group receives the mandate for an output from the Steering Committee. The Technical Team develops drafts for the Working Group and iterates and refines these drafts based on feedback from the Working Group, liaising with the Working Group co-leads to advance consensus-based solutions. The Working Group signs off on the final output and agrees with the Technical Team if there are any elements that cannot be resolved in the Working Group, and which need to be put to the Steering Committee for resolution. The Technical Team presents the output to the Steering Committee for approval in the agreed timeframe.

Questions:

1. Do you agree with the role of the Working Groups and Technical Team outlined above?

We have observations and comments on the Steering Committee, Working Groups and the Technical Team, as follows.

The Steering Committee

The proposals for the size and composition of the Steering Committee balance the Taskforce's need for stakeholder representation whilst respecting diversity, equity and inclusion across its stakeholder categories. The roles and responsibilities are appropriate for a representative organisation of this type.

The Consultation proposes fixed quotas for each sub-category. In our response to Question A2 above, we suggest that there should be a degree of flexibility in allocating seats, whilst ensuring minimum safeguards. We note that this would allow appointing well-qualified candidates that might not fit neatly into a particular slot. This approach has been adopted effectively by the IFRS Foundation when appointing 'at large' seats throughout its governance and technical bodies.

Working Groups

Working groups are the forum in which much of the co-creation within the Taskforce is expected to occur. As such, they must represent a breadth of experience whilst being effective forums for developing proposals. In addition, the working protocols will need to ensure that meeting time is used efficiently, whilst allowing all Working Group members the opportunity to intervene and contribute in a meaningful way.

Technical Team

We agree that the role of the Technical Team, and the Secretariat in general, is critical to the success of the Taskforce's ambition. We support the description of the role, responsibilities and expectations of the Technical Director outlined in the Consultation.

In addition, we recognise and support the expectation that the Technical Team will draw support from external stakeholders, including the specialists, partners, members, and diverse organizations represented by members of the TISFD Alliance.

2. Do you have any suggestions on the roles and responsibilities of the Working Groups to strengthen TISFD's process for co-creation (in line with TISFD's principles outlined in section "A. Governance Principles")?

We think that the roles and responsibilities of the Working Groups proposed in the Consultation are appropriate and set out reasonable expectations of how the Working Group and the Technical Team will interact in practice.

We would observe that the proposed size of Working Groups (15-30 people) is large compared to technical decision-making bodies, which tend to be most effective when composed of between 12 and 16 people. A smaller size would still allow a good representation across stakeholder groups, and permit meaningful participation (inclusion) in technical debates by all members, whilst remaining agile and responsive.

Whilst we agree that the Working Group is responsible for presenting its recommendations to the Steering Committee, we stress that it should be the Steering Committee that has the ultimate responsibility for approving final deliverables. Thus, we disagree with the statement on page 12 that the 'Working Group signs off on the final output...', although we do agree that the Steering Committee is the proper forum in which to resolve 'elements that cannot be resolved in the Working Group.'

The Technical Team should not be seen to own the Working Group output, but to support the Chair or Co-chairs and the effort of the Working Group. In addition, we suggest that Working Groups should be chaired (or co-chaired) by a Steering Committee member, with the possibility (although not a requirement) that one or two additional Steering Committee members may be appointed to a Working Group. The Chair or Co-chair that is a Steering Committee member would provide regular updates on their project and present the Working Group's final recommendations to the full Steering Committee for approval.

Our suggestions should help to strengthen the accountability for the work of the Working Groups both in the Steering Committee and to the Stewardship Council.

Governance Principles

We think that the Governance Principles of Inclusivity, Co-creation, Effective and efficient decision making, Continuous learning and development, and Transparency are appropriate to the Taskforce's ambitions and proposed operations and reflect its multistakeholder nature.

With respect to Transparency, we encourage the Taskforce to develop and publish a brief summary of its expected due process procedures – especially its expected comment periods and likely delivery of proposals for comment – so that constituents can plan appropriately and respond effectively.

D. Other comments

Governance – The Stewardship Council

The Stewardship Council is a critical part of the Taskforce’s governance, and yet it is the least well explained. In our view, the proposals for the Stewardship Council as described in the Consultation are unlikely to provide for effective and rigorous independent oversight.

The Consultation states that the Stewardship Council would be ‘established in line with the TISFD host requirements,’ although what these requirements are or who the host is to be are not explained. Nor is it clear how large the Stewardship Council is intended to be. From the description in the Consultation, it could be a very small group (as few as six). We do not think that such a configuration could provide effective oversight of the Taskforce for the following reasons:

- the Co-chairs could never be independent of the activities that they are supposed to be overseeing, given that the Steering Committee is the primary actor in the organisation;
- the four Co-chairs would either control or could be a blocking minority in the group; and
- in extreme circumstances—for example, in the case of an Ombudsperson referral—the Stewardship Council as described would probably be conflicted.

In our view, the Stewardship Council should be positioned as an independent oversight body. No one should be appointed to the Stewardship Council who is a member of the Secretariat, Steering Committee or a Working Group – in other words, members should be independent of the work they are charged with overseeing. Were the Stewardship Council to be independent, we think that a sub-committee of the Council could undertake the grievance-related responsibilities proposed for the Ombudsperson.

We suggest that the Stewardship Council consist of senior, experienced representatives of the various Categories within the TISFD Alliance (including, explicitly, candidates drawn from the Other category). As with other Taskforce bodies, the membership should seek to maintain a balance among gender, geography, and constituency background whilst maintaining diversity, equity and inclusion as required.

Funding organisations may be represented but should not dominate. Ideally, at least one member should have capital markets regulatory experience, such that the Council might be informed whether the recommendations and metrics being developed could be accepted by capital market regulators (if direct membership is not possible, the Council should seek to establish working arrangements with IOSCO, to ensure this aim).

An advisory body

The Consultation states that the Stewardship Council would act as ‘an “Advisory board” with a distance from day-to-day operations.’ This proposed role is not explained (an adviser to whom, and on what?) and it is unclear under what circumstances this role would be invoked, how the Stewardship Council would provide its advice, and whether the enquirer would be required to follow any advice given.

In any event, in our view, an advisory role for an oversight body is inappropriate. The Stewardship Council should be responsible for Taskforce adherence to its mission and the delivery of its recommendations, and receiving and investigating grievances, as stated on page 17 of the Consultation (and varied as suggested above). In addition, they should be the primary contact with key external stakeholders, including governments, securities market regulators, global constituency organisations, and standard setters.

If an advisory body is thought necessary, it could be convened with proper terms of reference, from the Alliance.

Governance—Nominating Committee

We generally support the role and terms of reference for the Nominating Committee. We note that the two-year term is consistent with the current business model for the Taskforce.

As an alternative to maintaining the initial Nominating Committee, and consistently with our recommendations with respect to the Stewardship Council above, we suggest that, once the Taskforce's structures are in place, the Stewardship Council (possibly through a sub-committee) could assume responsibility for filling vacancies on the Steering Committee in accordance with procedures similar to those used initially to ensure that the Taskforce's stakeholder representation and power balancing commitments are met.