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## ISSB meeting

Date	<b>February 2025</b>
Project	<b>Research Project - Human Capital</b>
Topic	<b>Approach to research on evidence of investor interest in human capital-related risks and opportunities</b>
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## Purpose of the paper

1. This paper outlines the approach taken to conducting research on evidence of investor interest in human capital-related risks and opportunities. It provides an overview of the steps taken as part of the research, the composition of engagements and the literature analysed and the analytical approaches employed. It also provides an overview of the topical groupings used within the research.
2. This paper is an informational supplement to Agenda paper 4B *Analysis of evidence of investor interest in human capital-related risks and opportunities*, which presents detailed findings from the staff's analysis. In this paper the ISSB is not being asked to make any decisions.

### Questions for the ISSB

1. Does the ISSB have any questions regarding the research approach taken or the topical groupings used in the research?

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## Structure of the paper

3. The paper is structured as follows:
  - (a) Description of research methodology
    - (i) Investor engagement
    - (ii) Literature review
    - (iii) Topical groupings used in the research

## Description of research methodology

### *Investor engagement*

4. Starting in June 2024, 60 bilateral meetings and 16 roundtables were held to discuss investor interest in human capital-related risks and opportunities. In total, we engaged with over 300 individuals from 158 organisations.

### *Sources used to identify investors to engage with*

5. Several sources were leveraged to identify investors for engagements, including members of the ISSB and its staff, the ISSB Investor Advisory Group (IIAG), the IFRS Sustainability Alliance, the Sustainability Reference Group (SRG), other standard-setters and framework providers and investors who responded to the ISSB Request for Information on its Agenda Priorities.

### *Reaching a representative sample*

6. To collect representative views, the engagements were held with a range of investor types (asset managers, asset owners, banks), firm size, asset classes (equity, fixed income, lending, private equity/debt), sell-side and buy-side functions and geography of headquarters (North America, Europe, the Asia-Oceania region, Africa, the Middle East and Latin America and the Caribbean).

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7. Roundtables were held with various investor groups including the IIAG, the IFRS Sustainability Alliance, the International Association of Credit Portfolio Managers, the Workforce Disclosure Initiative's Investor Signatory Group, ShareAction's Good Work and Long-term Investors in People's Health Investor Coalitions, the Emerging Markets Investor Alliance, and the International Corporate Governance Network (Tokyo). We also conducted roundtables during New York Climate Week and the Council of Institutional Investors Fall conference.
  8. Finally, we engaged with some human capital-related data providers, investor-oriented NGOs, academics and other subject matter experts.

#### *Geographic coverage of engagements*

9. The largest number of engagements were with organisations headquartered in North America and Europe. This is broadly representative of the relative size of the capital markets in these regions. Investors and other stakeholders in the investment value chain based in the Asia-Oceania region, Africa, the Middle East and Latin America and the Caribbean represent 33% of total bilateral engagement and 18% of roundtable participants. The staff engaged with many investors headquartered in North America and Europe that invest globally or who specifically focused their investment activities on emerging markets and developing economies (EMDEs), who provided their views on investing in these markets. We considered these views in the overall analysis but did not count these North American and European investors in the EMDE regions in charts 1 and 2 below.

#### *Types of organisations engaged*

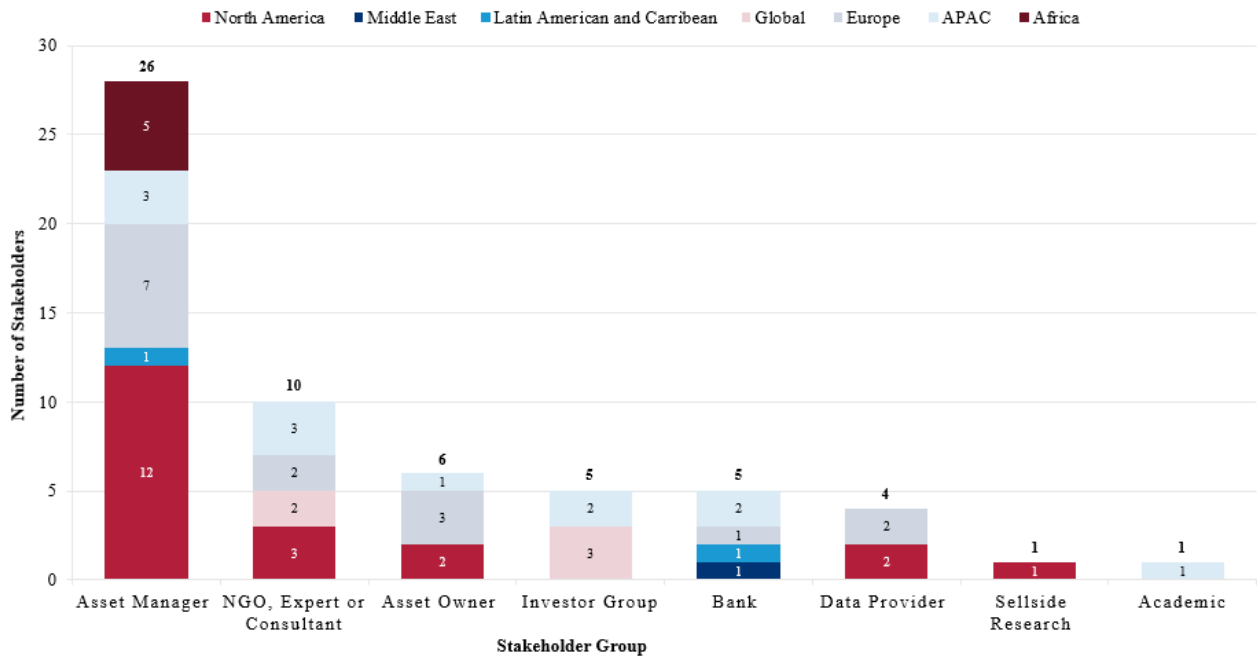
10. Most bilateral engagements involved asset managers (47%), followed by experts, consultants or investor-focused NGOs (17%), asset owners (10%), investor groups (8%) and banks (8%). For roundtables, asset managers again made up the highest proportion of participants (57%), followed by asset owners (11%) and banks (9%).

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11. The staff intentionally reached out to individuals that held positions related to the investment decision-making process. For example, we primarily sought feedback from portfolio managers, sell-side analysts, ESG research analysts, financial analysts, credit analysts, investment risk managers and stewardship teams when engaging with investors. We also solicited feedback from others including subject matter experts, academics and standard setters but only when their expertise was relevant to the investor interest in human capital-related risks and opportunities.
  12. Chart 1 on the following page shows the distribution of bilateral investor engagements by type of organisation and geographic region. Chart 2 shows information on roundtables.<sup>1</sup>

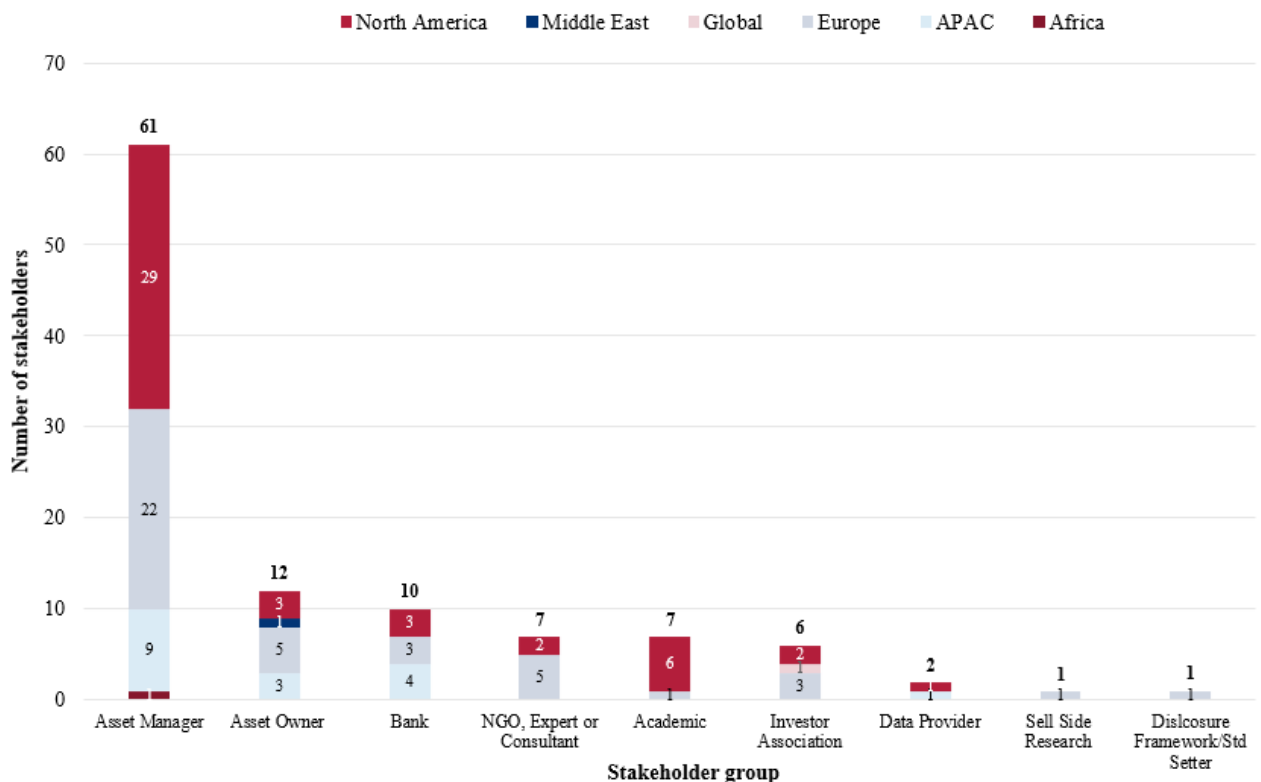
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<sup>1</sup> Organisations labelled 'global' in the charts are organisations in the investment value chain with global memberships or footprints and are not investors themselves.

**Chart 1 – Human Capital Research Project, Phase 1: Bilateral Engagements**



**Chart 2 – Human Capital Research Project, Phase 1: Roundtable Engagements**



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*Types of questions asked*

13. The staff intentionally posed broad and open-ended questions in Phase 1 of the research to obtain a broad range of views. In future research, the staff has an opportunity to ask more specific questions and dive deeper into issues raised by investors, as appropriate to support the ISSB's decision making.
14. The engagements covered four categories of questions:
  - (a) the level and drivers of investor interest in human capital-related risks and opportunities;
  - (b) the type and sources of information currently used by investors;
  - (c) how investors use information in their investment decision-making processes; and
  - (d) the information challenges, barriers or gaps faced by investors, including what information investors are interested in to strengthen their investment decisions
15. For example, the engagements included such questions as:
  - (a) Which human capital-related themes or topics do you consider when making investment decisions? Which industries or sectors do you consider? Which geographies?
  - (b) Why do you consider these themes, topics, industries and geographies?
  - (c) What sources of information (entity reports, third-party data providers, public sources) do you use? What disclosure standards and frameworks are entities adopting and are they useful to investors' information needs?
  - (d) Does information availability or quality vary by industry, geography, or market?
  - (e) What types or forms of human capital-related data do you use when making investment decisions and why do you use this information? For example, do you use qualitative or quantitative information, or outcome or process focused information?

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- (f) How do you use the information you mentioned in your investment decisions? What techniques do you use (e.g., screening, fundamental analysis, quantitative analysis, thematic analysis)? How else are you using the information?
  - (g) What challenges or barriers are you experiencing in trying to incorporate information on human capital-related risks and opportunities into your investment process? Do these challenges vary based on industry or geography?
  - (h) What are the most critical information gaps that you would like to see filled?

### ***Literature review***

#### *Overview of sources*

16. A literature review was conducted to complement the investor engagements. This covered a diverse set of sources, with most drawn from investor research (24%), academic papers and publications (24%) and NGO reports (24%), followed by consultancy reports (12%), the work of standard setters (12%) and publications from investment industry organisations (6%).<sup>2</sup> Staff assessed the credibility of this literature based on a combination of factors such as sample size, study design, credibility of author(s), relevancy and recency of the report. The review used a variety of tools to identify relevant literature including desk research on reputable publications, investor and third-party recommendations and ISSB member recommendations.

#### *Limitations and considerations for the literature review*

17. Sources focused specifically on both investor interest and human capital information were relatively limited. Many publications focused more heavily on the investor relevance of human capital information in the context of how human capital-related risks and opportunities affect an entity's prospects, rather than considering what

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<sup>2</sup> Percentages do not total 100 due to rounding.

investors' information needs are. This is a subject that is being considered in detail in the parallel research area on the effects of human capital-related risks and opportunities on entities' prospects.<sup>3</sup> To keep the findings discrete and ensure a focus on the specific research question being considered for this research area, papers that did not specifically explore investor interest in information on human capital-related risks and opportunities and related challenges were excluded from the literature review. This significantly reduced the number of sources that were included in the research.

18. Similarly, many sources had a different thematic scope to the research. Many discussed human capital-related risks and opportunities in the context of the 'S' pillar of Environmental, Social and Governance (ESG) factors, or had a different, but overlapping focus (for example, on human rights in general, with workforce-related human rights being considered within this). This literature review strived to focus on sources specific to human capital-related risks and opportunities in the investment process. However, it does draw on the wider ESG- and sustainability-related literature to the extent that the insights are relevant to investor interest in human capital-related risks and opportunities.

## Topical groupings used in the research

19. To facilitate analysis of investor feedback in the research, topical groupings were established. These were used to log and group investor feedback in a consistent and comparable way, as investors used different terms and framings to refer to topics and issues.
20. It should be noted that these groupings do not represent proposed ISSB definitions or focus areas. They were established purely for analysis purposes for this research due to a need for a mechanism to categorise and compare findings. Any proposed definitions, groupings or categories to be used beyond phase one of this research are

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<sup>3</sup> See AP4C *Research Project – Human Capital, Evidence of effects on an entity's prospects*, February 2025.



still to be determined, and there is no assumption that the groupings used here will continue to be used in any future research or potential standard setting activity.

Topical grouping	Scope of the grouping
Workforce Governance	Includes information on governance structure and management insofar as it relates to the workforce, board performance on workforce issues, and policies related to workforce management in general. Policies related to specific topics (for example, a diversity and inclusion policy), are included under that topic. General information about governance was not included in the analysis.
Workforce-related Human Rights Due Diligence and Risk Assessments	Includes information on human rights due diligence and identifying and responding to general workforce risks and opportunities. Information that exclusively focuses on identifying and responding to risks and opportunities relating to specific topics (for example, risks relating to forced labour) are recorded under that topic.  The research only included mentions of risk assessments and human rights due diligence where they related to the workforce. General discussion of these topics, or where they were brought up in relation to risks and opportunities relating to other groups (such as local communities) were not included in the analysis.
Workforce Composition	Includes information on the structure and location of the workforce (including both workers in the direct operations and the supply chain) and the contract types used.
Pay and Benefits	Includes information related to wage levels, pay ratios and pay gaps, as well as financial and non-financial benefits provided to the workforce.
Diversity and Inclusion	Includes information on monitoring diversity and inclusion (for example, representation of different demographic groups), action to improve diversity and inclusion, and any information relating to discrimination and harassment.

Topical grouping	Scope of the grouping
Recruitment and Retention	Includes information on turnover, recruitment practices and retention efforts excluding specific information relating to pay, benefits and employee wellbeing.
Training and Development	Includes information on levels of provision of training and development, examples of training, and strategies for workforce development.
Health, Safety and Wellbeing	Includes information on occupational health and safety, mental health and safeguarding, and general worker wellbeing including areas such as work-life balance and flexible working.
Workforce Transitions	Includes information on the transition to a lower-carbon economy, and the use of AI and automation where it relates to the workforce.
Worker Voice and Representation	Includes information on freedom of association and collective bargaining, employee engagement and worker feedback.
Grievance Mechanisms	Includes information on numbers of grievances, processes for raising and addressing grievances, and outcomes relating to grievances.
Sourcing Practices	Includes information on the structure of supply chain, an entity's sourcing strategy, and its engagement with suppliers in relation to workforce issues.
Working Conditions and Exploitation	Includes information on modern slavery, child labour, prison labour, other labour-related human rights not covered by other categories.
None/other	Any other information related to human capital that did not fit within the categories set out above.