
Human capital – Preliminary assessment of evidence of investor interest

Date	December 2024
Project	Human Capital
Topic	Preliminary assessment of evidence of investor interest
Contacts	Charlotte Lush, Technical Staff (charlotte.lush@ifrs.org) Emily Gaston, Technical Staff (emily.gaston@ifrs.org)

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Discussion agenda

- Background
 - Research objective and approach
 - Potential research limitations
- Preliminary insights on evidence of investor interest
 - Areas of investor interest
 - Drivers of investor interest
 - Information sources used by investors
 - Investor uses of information
 - Information challenges
- Summary of key findings
- Next steps
- ISSB feedback and discussion

Purpose of presentation and agenda

The purpose of today's presentation is to **provide an overview of preliminary findings from the Phase 1 discussions with investors on risks and opportunities related to human capital.**

The presentation summarises the major and high-level takeaways from discussions with investors and the investment value chain in five categories:

- What information relating to human capital risks and opportunities are investors interested in?
- Why are investors interested in information on human capital-related risks and opportunities?
- What sources of human capital-related information do they use?
- How is human capital-related information used in investment decisions?
- What information challenges and gaps do investors face in relation to human capital?

The ISSB is not being asked to make any decisions in this session.

Background



Research objective and approach

Research question:

What are the human capital-related information needs of investors and how is current disclosure practice meeting or failing to meet these needs?

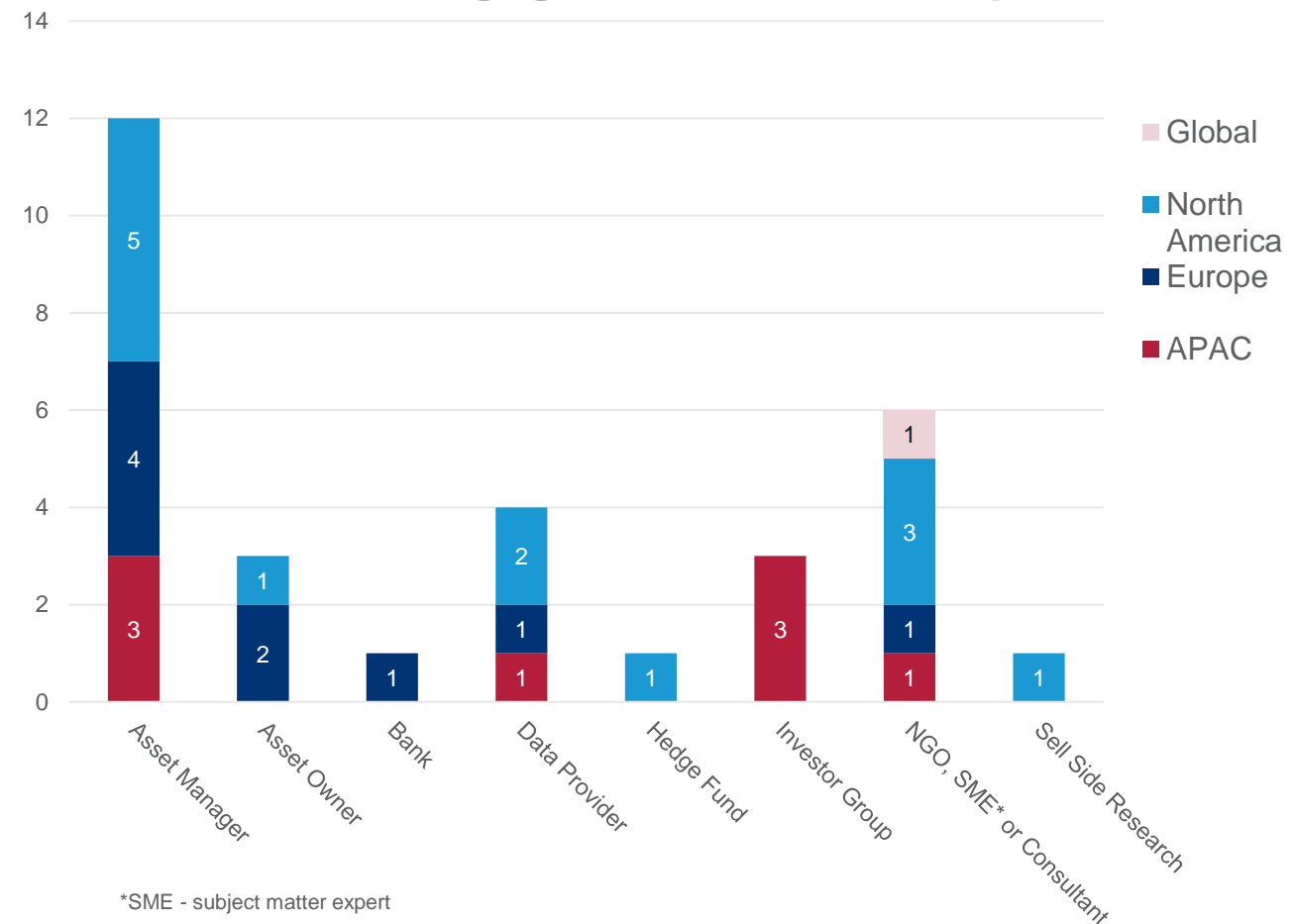
Research approach for preliminary findings:

1. Identify potential stakeholders to contact
2. Develop interview questions
3. Conduct bilateral and multilateral (roundtable) engagements with investors and other related stakeholders
4. Log and categorise responses, conducting quantitative and high-level qualitative analysis of the feedback

Composition of bilateral investor-related engagements

- As of 11 October 2024, the staff held **31 bilateral engagements** with a **diverse set of investors and others in the investment value chain**, including asset owners, asset managers, banks, data providers, investor groups, and investor-related NGOs (see chart).
- Stakeholders were chosen specifically due to their ability to provide informed feedback in relation to investors' human capital information needs and all engagements were limited to this framing.
- Engagement diversity was sought along the lines of investor type, investment style, sell-side and buy-side, invested asset classes, firm size, and geography.
- In further outreach, staff will **seek to expand engagements** with investors from **Latin America, the Caribbean, Middle East, and African countries** to make up for relatively lower numbers of meetings in these regions during the initial outreach.
- Engagements have leveraged ISSB groups including the ISSB Investor Advisory Group (IIAG), IFRS Sustainability Alliance and Sustainability Reference Group (SRG) representatives, but haven't been limited to these groups.

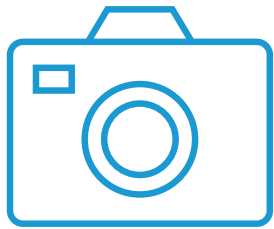
Bilateral Engagement - Human Capital



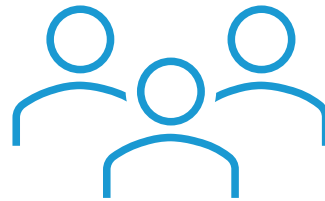
Approach to market outreach – roundtables

- **Five roundtables** were conducted to discuss investor interest in information related to human capital-related risks and opportunities. The five roundtables numbered **70 participants**.
- Participants represented a range of constituents, such as institutional investors—including portfolio managers, investors focused on emerging markets, members of the IIAG—and sell-side analysts, banks' credit portfolio managers and investor-related NGOs.
- Additional roundtables have been scheduled.
- **In total** between bilateral engagements and roundtables, staff has engaged with **over 100 investors and other investment value chain actors** so far.

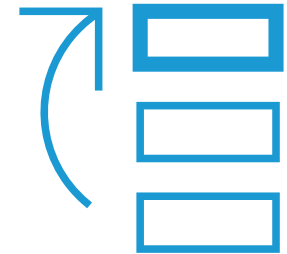
Limitations and considerations of the research and findings



Findings are **preliminary** and represent a **snapshot** of the insights we have received from investors so far. Findings can't be considered as representing the full range of investor views.



The sample is **not wholly representative** of every type of investor. Investor responses often reflect individual, department or team experiences and demographic gaps mean some perspectives are yet to be included.



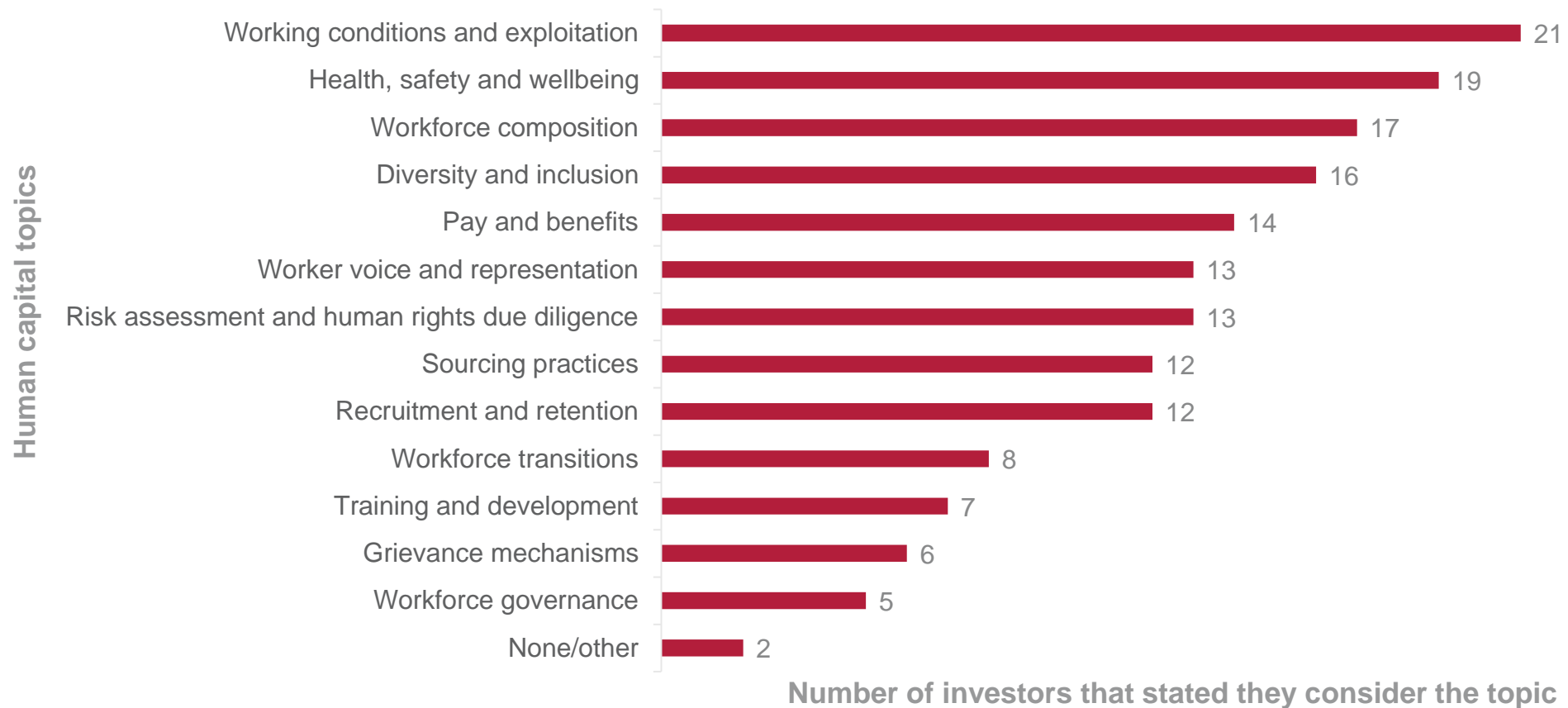
Often, answers were given as **examples or as priorities**, so responses don't necessarily represent the entirety of an investor's viewpoint.

Preliminary insights



What human capital information are investors interested in?

Human capital topics considered by investors



What human capital information are investors interested in?

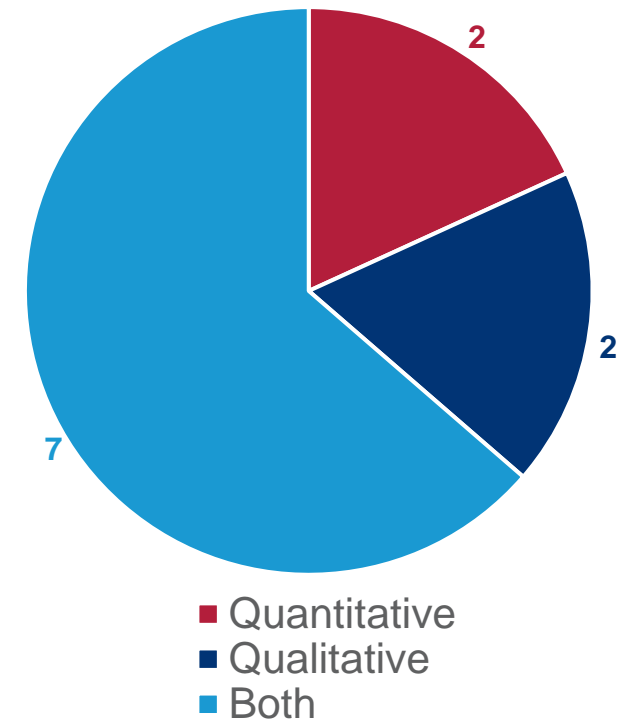
Sector insights

- Every SICs sector was mentioned as a priority for human capital at least once. The most commonly cited sectors were:
 - Food and beverage
 - Extractives and mineral processing
 - Technology and communications
 - Consumer goods
- When asked about the sectors where human capital-related risks and opportunities were most prevalent, a third of investors who responded stated that related risks and opportunities were present in every sector.

Geographic insights

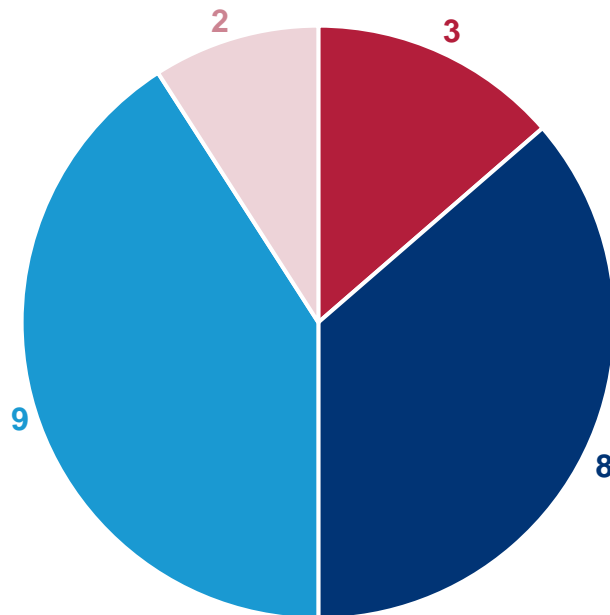
- Geography was often mentioned as highly influential on what human capital-related information was available, what information was considered material, and how that information was assessed.
- However, few investors stated that particular countries or regions were especially important in relation to human capital.
- When geographies were mentioned, the most frequently cited were:
 - Asia
 - North America

Number of investors stated a preference for particular forms of information



Why are investors interested in human capital information?

Reason for interest in human capital information

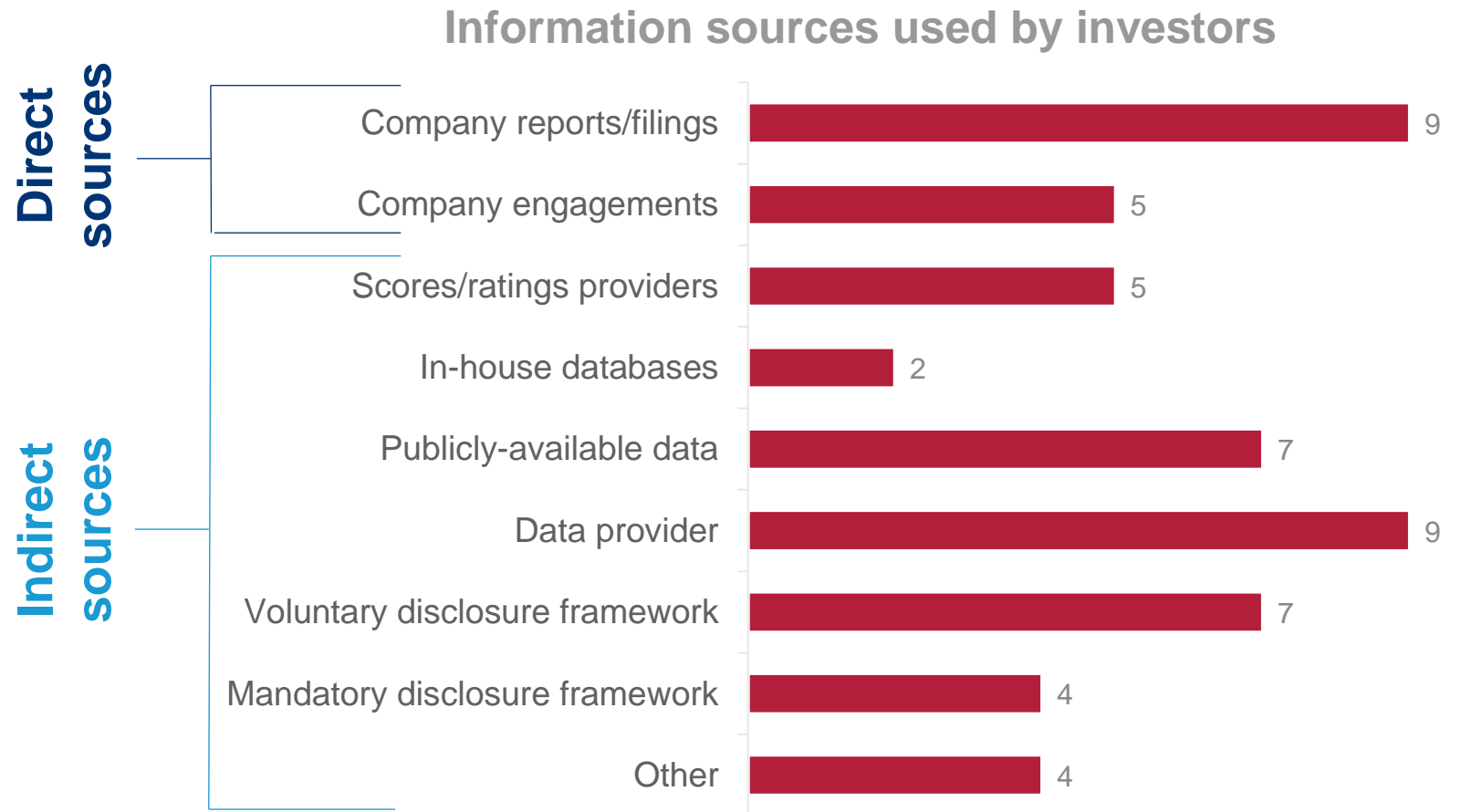


■ Client demand ■ Risk assessment ■ Returns ■ Regulatory requirement

- **Risk assessment** and **investment returns** were the most significant drivers of investor interest in human capital information.
- Several investors stated that they expected increased and improved disclosure to lead to investment returns becoming a bigger driver of demand for human capital information.
- While many investors cited returns as the reason for their interest in human capital information, the specific rationale for this varied.
- **Regulatory requirements** focused on the need for human capital information to support investors' own reporting requirements.
- **Client demand** focused on demand from asset owners for action on specific human capital issues in their managers' investment decisions.

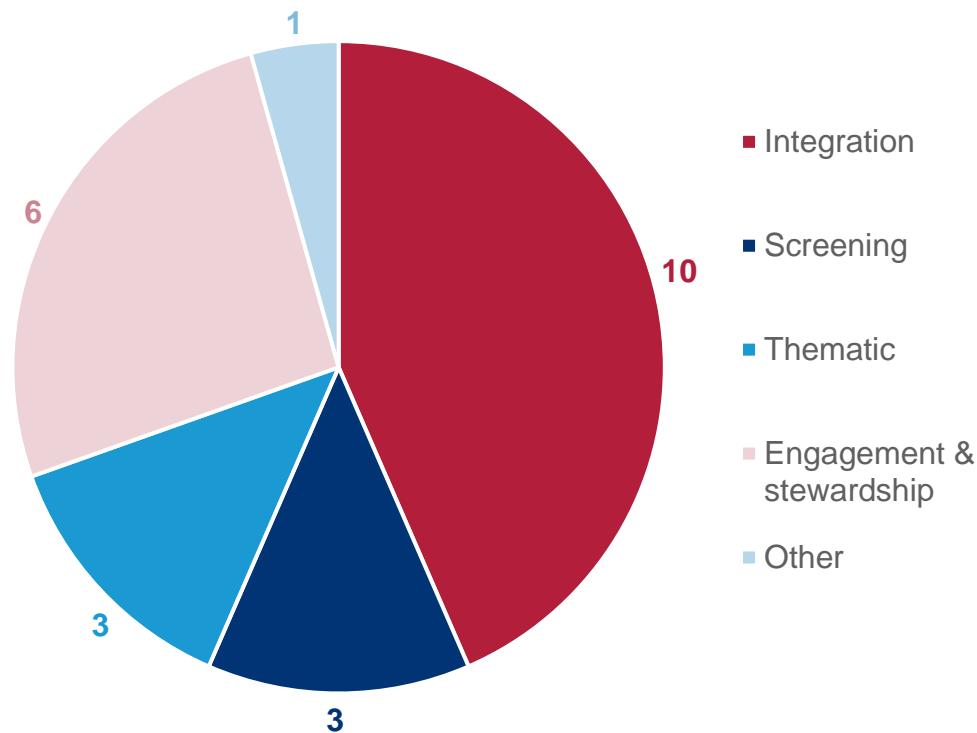
What sources of information are investors using?

- Investors reported the need to use a range of different sources to meet their human capital information needs.
- Many investors expressed an interest in information that came directly from workers, with work-related social media content and employer review sites being used regularly.
- Often, broader, more generic datasets were then supplemented with company engagement to get a more nuanced picture.



How are investors using human capital information?

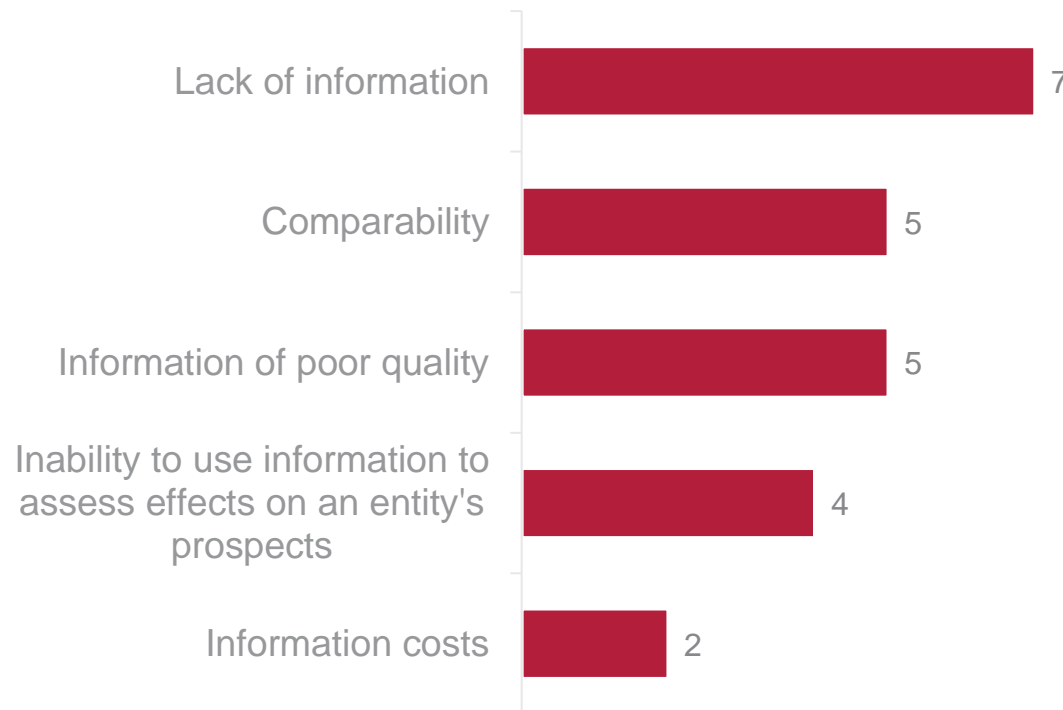
How human capital information is used in investment decision-making



- The ways investors use human capital information in investments tends to reflect their approach to investments overall, rather than unique approaches being taken when considering human capital information.
- The exception to this is when investors were newer to considering human capital issues, where human capital would be considered in one particular strategy to start with before being rolled out more widely.
- Very few investors use human capital information in just one way for investment decision-making, with most using it in several ways.
- Often these different approaches were seen as mutually reinforcing when it came to human capital information. This is particularly the case in relation to engagement and stewardship, which was both an end in itself and an input into other aspects of investment decision-making involving human capital information.

What challenges do investors face relating to human capital information?

Challenges relating to human capital information



- Often, basic workforce information is the most challenging to access, with information on workforce composition and the location and composition of the supply chain being regularly mentioned as key information gaps.
- Information availability varied by both industry and geography.
- A lack of standardised definitions and approaches to measurement make comparisons challenging.
- Often, the information that is disclosed is not the information that is needed to assess the effects of human capital-related risks and opportunities on an entity's prospects.
- Even when there is a high volume of disclosure, this can often be irrelevant and involve excessive boilerplate language.

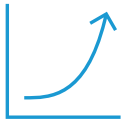
Summary and next steps



Key takeaways



Investors are interested in a range of human capital information, both in terms of topics and the types of information they want to see. At a high level, investors tend to consider human capital risks and opportunities to be relevant across sectors.



Demand for human capital information is predominantly based on a desire to manage risks or enhance returns.



Investors currently need to use a wide range of sources to access the human capital information they need.



Investors use human capital information in diverse ways, focusing on integration and engagement activities.



The most pressing challenge in relation to human capital information is availability, followed by comparability and quality.

Next steps for phase one of the research project

1. Continue engagements with investors and other relevant stakeholders, to focus on existing gaps in representation.
2. Conduct a literature review on investor interest in information on human capital-related risks and opportunities.
3. Conduct a more detailed, qualitative analysis of the findings of the research, as well as a quantitative assessment of roundtable discussions, delivering a more granular assessment in early 2025.

Questions for the ISSB

1. Given the areas included in the analysis, are there any particular aspects of the preliminary findings that require further exploration to inform the final deliverable?
2. Why do these areas require further exploration? Which specific elements of them, if any, do you think are the greatest priority for additional research?
3. What are the most significant questions about investor interest in human capital-related information relevant to this research that you are left with following this presentation?

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