
ISSB[®] meeting

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Project	Human Capital
Topic	Structuring the ISSB's analysis of research findings
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Purpose

1. This paper provides an update to the International Sustainability Standards Board (ISSB) on its Human Capital project and solicits feedback on a structured approach to analyse, synthesise, organise and prioritise findings from the initial phase of research. It sets out how the staff plans to apply this analytical approach to the research project. The ISSB will not be asked to make any decisions in this session.

Structure of the paper

2. The paper is structured as follows:
 - (a) scope and focus (paragraphs 3–15);
 - (i) nature and purpose of the analytical approach
 - (ii) scope
 - (iii) relationship to IFRS S1
 - (b) description of the analytical approach (paragraphs 16–35);
 - (i) dependencies and impacts
 - (ii) risks and opportunities

- (c) application to the ISSB's work (paragraphs 36–46);
 - (i) application to the research project
 - (ii) application to potential materials in relation to human-capital related risks and opportunities
- (d) Appendix A—Case study examples
- (e) Appendix B—Use of the term 'human capital'

Scope and focus

Nature and purpose of the analytical approach

3. The staff has identified a need to provide the ISSB with a more structured analysis of its human capital-related research findings. Human capital is a broad topic with many interrelated, non-discrete sub-topics, each of which is multifaceted in its own right. These topics are also characterised by different levels of maturity in the market, both in terms of understanding and practice, and there is no existing human capital framework or approach that reflects the focus and objectives of the ISSB that can be adopted to support the analysis. The initial phase of research on disclosure about human capital-related risks and opportunities also indicated that standard-setting or supporting materials are likely to be necessary and feasible—at least to some degree—for nearly all human capital topics. To focus the ISSB's efforts on the highest priority areas of potential work and ensure a proportionate approach to any future activities, the staff seeks to establish a framework for analysis that enables a more sophisticated understanding of the research findings than a purely topical approach can allow.
4. IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* provides several key concepts that can serve as a helpful starting point when analysing the necessity and feasibility of standard-setting, such as distinctions and interdependencies between dependencies, impacts, risks and opportunities. These

concepts are discussed further in paragraphs 16–35. However, the more general focus of IFRS S1 on sustainability-related risks and opportunities limits the extent to which the concepts it includes can provide a more detailed understanding of the thematically specific aspects of human capital. As a result, the analytical approach described in this paper builds on key concepts embedded in IFRS S1 to enable the ISSB to identify meaningful distinctions between different aspects of human capital-related subject matter.

5. By undertaking such a structured analysis, the staff aims to provide the ISSB with a common framework for assessing the research findings, including a consideration of the necessity and feasibility of related standard-setting.

Scope

6. The analytical approach described in this paper does not aim to exhaustively cover every concept related to human capital. Instead, it is designed as a practical tool to focus on the areas that will best facilitate the ISSB's ability to evaluate research and recommendations on potential standard-setting for disclosure about human capital-related risks and opportunities. The analytical approach has therefore focused on two main groups of concepts: risks and opportunities, and the dependencies and impacts that give rise to those risks and opportunities.
7. The analytical approach is designed to align with the scope of the Human Capital research project, as set out when the ISSB determined which projects to add to its work plan.¹ As such, it considers concepts related to risks and opportunities that are associated with an entity's own workforce or with workers in the value chain. The approach is not designed to apply to other stakeholder groups (such as communities) or other sustainability topics (such as climate), except where they are directly relevant to workforce-related risks and opportunities (for example, in relation to a 'just transition' to a lower-carbon economy).

¹ [Agenda Paper 2 Projects to add to the work plan](#) (April 2024)

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8. The content and structure of the analytical approach do not suggest any particular approach to standard-setting or the development of supporting materials. The approach is intended to serve as a tool to support the analysis, synthesis, organisation and prioritisation of aspects of human capital within the research project and to facilitate communication. Aspects of the approach might continue to be useful beyond the research project (this is addressed in paragraph 47). However, future use is not part of the objective of the approach. Any decisions about whether and how to use any part of the approach in potential future Standards or associated materials would be subject to ISSB decision making.

Relationship to IFRS S1

Why and how the analytical approach builds on IFRS S1

9. The overall objective of the Human Capital research project is to determine whether it is necessary and feasible to set standards for disclosure of information about human capital-related risks and opportunities. IFRS S1 requires disclosure of material information about all sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects, including those related to human capital. Thus, a key consideration when looking to understand necessity and feasibility is whether information about human capital-related risks and opportunities is sufficiently covered by the requirements in IFRS S1. This consideration reflects the 'S1-plus' approach established in the first phase of research.²
10. However, IFRS S1 does not explicitly mention specific sustainability-related risks and opportunities, including those related to human capital. The ISSB therefore cannot assess whether (or not) a given human capital-related matter is sufficiently addressed by IFRS S1 without first understanding:

² [Agenda Paper 2B Biodiversity, ecosystems and ecosystem services and human capital research projects](#) (July 2024)

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- (a) the nature of the risk(s) and/or opportunity(-ies) associated with that matter; and
 - (b) the particular information about those risks or opportunities that is likely to be decision-useful to investors.
11. Furthermore, if the research identifies human capital-related matters that, in the ISSB's view, are not sufficiently covered by IFRS S1, it cannot assess whether other standards and frameworks might provide a useful starting point for developing relevant requirements without having first established the same understanding described in paragraph 10.
12. The analytical approach described in this paper aims to enable this understanding, focusing on particular human capital-related *information* rather than undertaking analysis at the level of topics or sub-topics.

What is the model set out by IFRS S1 that the analytical approach builds upon?

13. IFRS S1 provides a model through which to understand key concepts related to sustainability-related risks and opportunities. (See Figure 1.) The analytical approach to the research builds upon this model in a thematically specific way. In summary, IFRS S1 sets out that:³
- (a) 'An entity's sustainability-related risks and opportunities arise out of the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain. These interactions—which can be direct and indirect—result from *operating an entity's business model in pursuit of the entity's strategic purposes and from the external environment in which the entity operates*' (emphasis added).

³ Paragraphs 2 and B2 in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

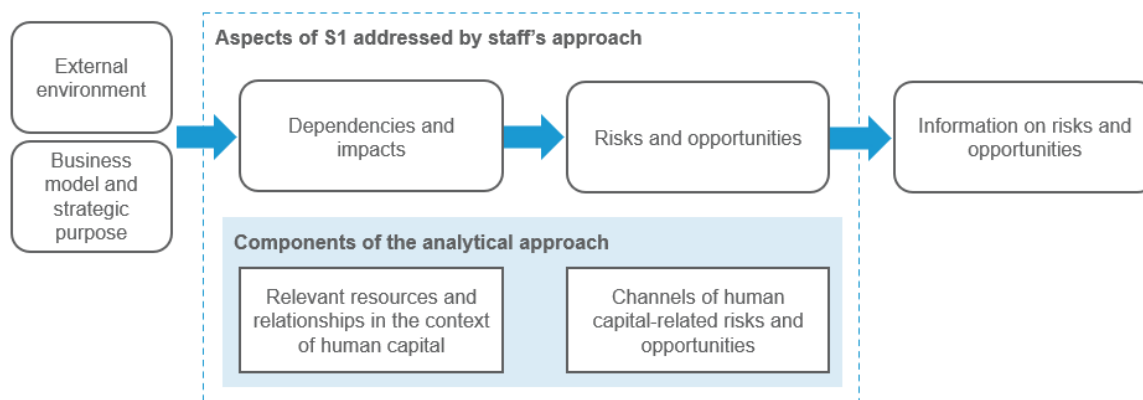
- (b) ‘These interactions take place within an interdependent system in which an entity both *depends on resources and relationships* throughout its value chain to generate cash flows and *affects those resources and relationships* through its activities and outputs’ (emphasis added).
- (c) ‘These dependencies and impacts might *give rise to sustainability-related risks and opportunities* that could reasonably be expected to affect an entity’s cash flows, its access to finance and cost of capital over the short, medium and long term’ (emphasis added).
- (d) ‘*Information about sustainability-related risks and opportunities* is useful to primary users because an entity’s ability to generate cash flows over the short, medium and long term is inextricably linked to the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity’s value chain’ (emphasis added).

Figure 1—The model set out by IFRS S1



14. The analytical approach builds on two of the central components of model set out by IFRS S1—dependencies and impacts, and risks and opportunities—in a human capital-specific way. (See Figure 2.)

Figure 2—The components of the analytical approach mapped to IFRS S1



15. Further components of the research project will provide more detailed insights into other aspects of the model set out by IFRS S1. For example, an upcoming staff paper on the necessity and feasibility of standard-setting will explore information on risks and opportunities that is useful for primary users, building upon the findings from the first phase of the Human Capital research project.

Description of the analytical approach

16. This paper will now set out each component of the analytical approach in turn, following the structure established by IFRS S1, as shown in Figure 2. Illustrative examples will be used to provide a more practical understanding of the individual components. Appendix A to this paper provides case studies demonstrating how the approach as a whole applies to different fact patterns.

Dependencies and impacts

17. In paragraph B2, IFRS S1 states that an ‘an entity both depends on resources and relationships and ... affects those resources and relationships through its activities and outputs.’ The analytical approach aims to provide greater clarity on this in the context of human capital. It does so by identifying the resources and relationships upon which entities depend and/or impact, and from which human capital-related risks and

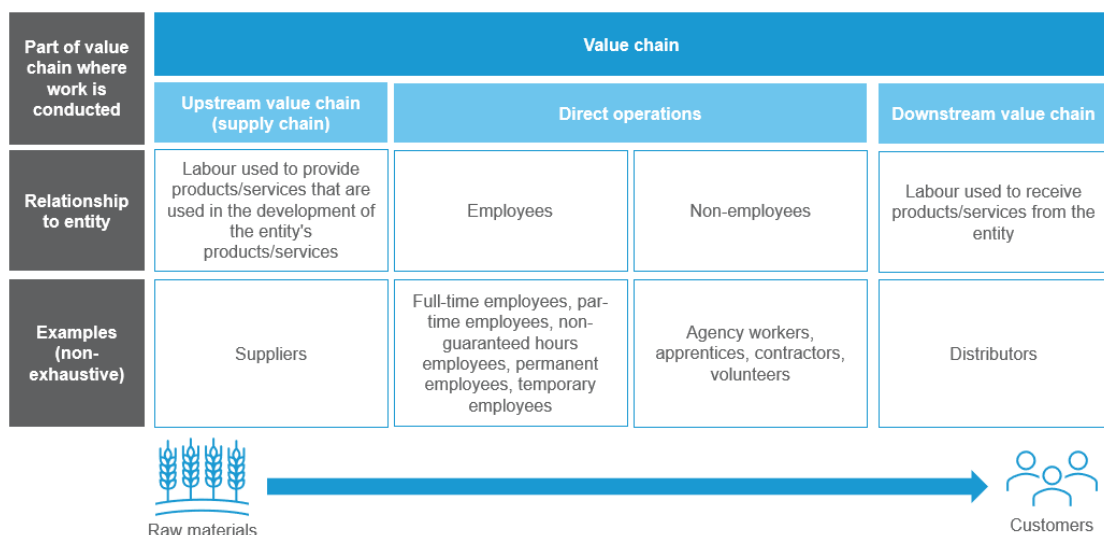
opportunities can arise as a result. By clarifying the specific interactions, resources and relationships from which human capital-related risks and opportunities can arise, the ISSB can identify where standard-setting may be necessary (or not).

18. The analytical approach focuses on two main kinds of resources and relationships from which human capital-related risks and opportunities can arise: workers, and other resources and relationships.

Workers

19. In the context of human capital, the workers whose labour contributes to an entity's ability to achieve its strategic purposes are a key resource and a primary relationship that the entity both depends upon and impacts. Entities can depend upon and/or impact workers that fall into one of three groups: workers in the entity's own operations, workers in the downstream value chain, and workers in the upstream value chain. (See Figure 3.)
20. In an entity's direct operations, workers include an entity's employees. An entity's own workforce also includes workers whose work is conducted as part of the entity's direct operations but who are not in a direct employment relationship with the entity (for example, agency workers or independent contractors).

Figure 3—Workers that an entity depends on and/or impacts

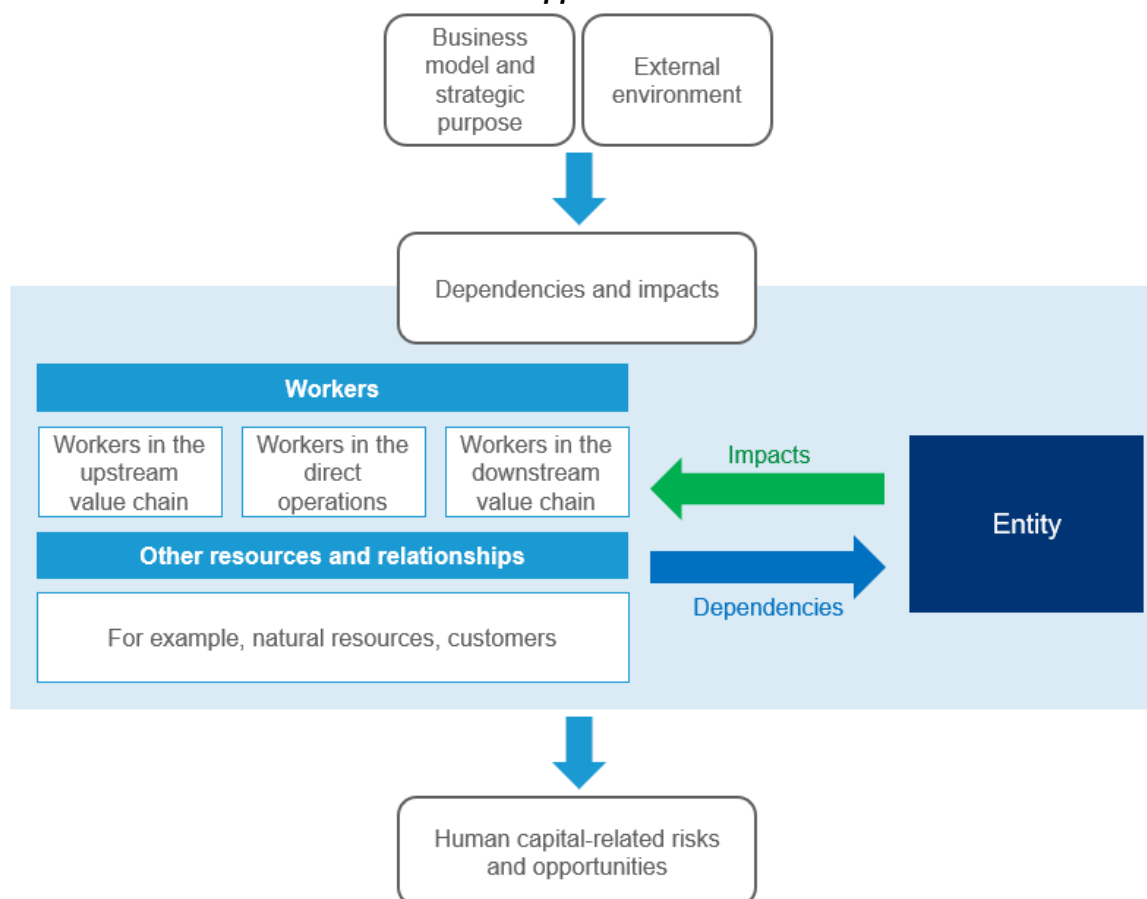


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21. In line with the model set out in IFRS S1, the extent and ways in which an entity depends on and impacts each group of workers will vary based on the entity's business model and strategy, and the external environment in which it operates. For example, workers in the upstream value chain are much more likely to be relevant to the risks and opportunities faced by an apparel company than a financial services company, given the important role that outsourced manufacturing can play in an apparel company's strategy. Similarly, non-employees in an entity's own operations are likely to be highly relevant to an entity whose business model involves the provision of digital labour platforms, where such workers are connected directly with clients for on-demand service delivery. In terms of the external environment, jurisdictional factors such as employment law and local business practices can also play a significant role in both how workers are specifically categorised and which workers may be relevant for a particular entity. This aspect of the analytical approach sets out the groups of workers that an entity *can* depend on and impact. Which groups apply in practice would be subject to the unique circumstances of a particular entity.
22. In developing the analytical approach, staff used a framing of human capital that focused on risks and opportunities related to workers in an entity's direct operations and in the value chain, in line with the scope and focus of the ISSB's Human Capital research project. However, the staff has faced challenges aligning the substance of the work with the 'human capital' terminology and framing of the project. This is due to the range of definitions of the term 'human capital' and because practical use of the term varies from the scope used in the research project. Appendix B provides more detail on the ways human capital is defined and used and how these relate to the ISSB's work.

Other resources and relationships

23. An entity's dependencies and impacts on other resources and relationships, such as relationships with business partners, regulators and policymakers, or local communities, or natural resources, can also play a role in the emergence of human capital-related risks and opportunities. (See Figure 4.)

Figure 4—Other resources and relationships that play a role in human capital-related risks and opportunities



24. In some instances, risks and opportunities will arise because of an entity's dependencies and/or impacts on workers alone. For example, an entity might operate in a highly competitive market and depend on a highly specialised workforce to operate its business model. As a result, the entity might invest in employee training. The entity's investment in training would then impact the employees, who have developed their skills as a result. This investment in training might lead to an opportunity to increase market share due to the more highly skilled workforce developing more innovative products.
25. In other instances, an entity's dependencies and impacts on resources and relationships other than workers can play a role in the emergence of human capital-related risks and opportunities. Specifically, an entity's *dependencies* on other resources and relationships can lead to *impacts* on workers. For example, an entity

might depend on cobalt for the production of batteries for a new line of electric vehicles. The vast majority of cobalt is sourced from markets where there is a significant likelihood of severe labour abuses. The entity might source cobalt from mines where there is forced labour after the entity's due diligence processes fail to identify issues with the working conditions in the mines. The use of forced labour in the entity's value chain may create a risk that the entity is unable to import its electric vehicles into some markets due to legislation prohibiting the entry of goods made with forced labour. Thus, workers in the upstream value chain are impacted by the entity's dependency on a different resource—in this case, natural capital in the form of cobalt.

26. This causal chain can also work in the other direction, and it can be the case that an entity's *impacts* on workers have consequences for its *dependencies* on other resources and relationships. For example, an entity operating in the consumer goods sector might fail to sufficiently correct a culture where sexual harassment is prevalent. If these negative impacts are reported publicly, it might lead to a drop in consumer demand. In this case, the impact on workers then had consequences for the entity's dependency on consumers.
27. In summary, dependencies and impacts on *both* workers and other resources and relationships may be relevant when considering human capital-related risks and opportunities.

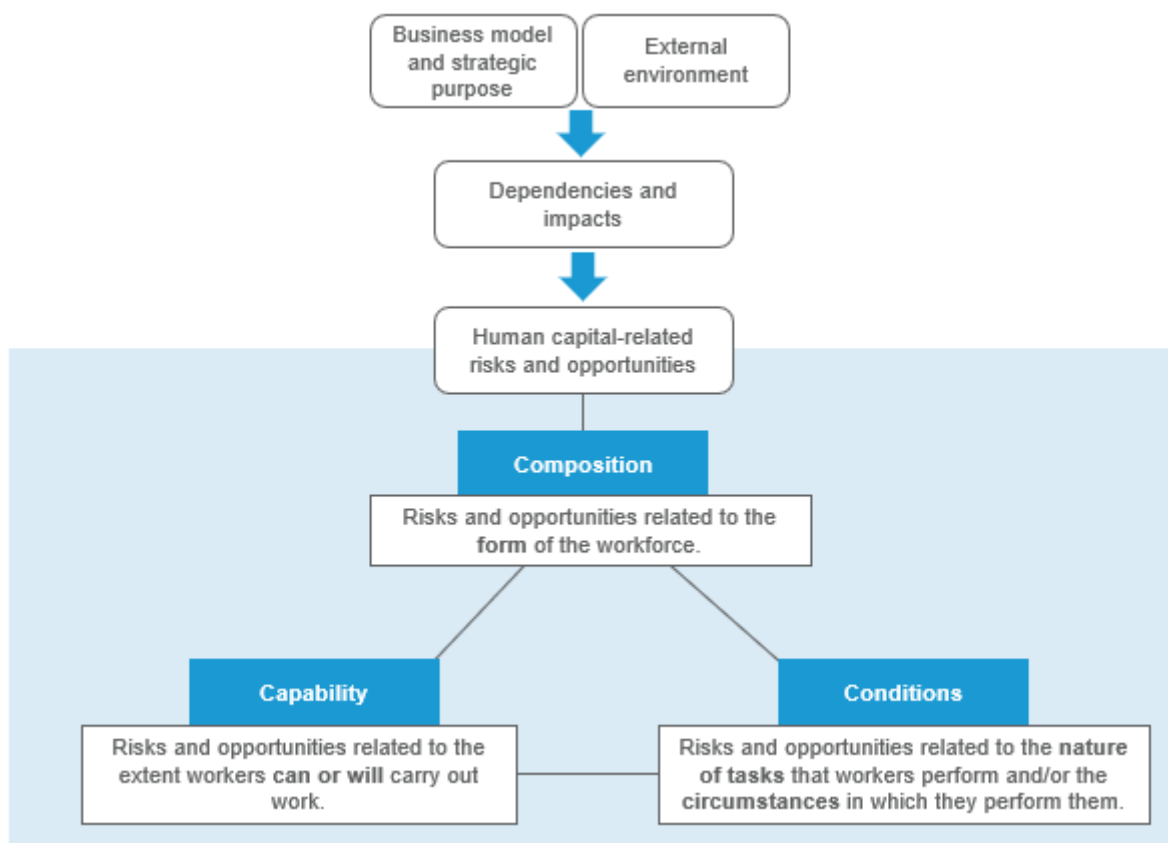
Risks and opportunities

28. Paragraph B2 of IFRS S1 sets out that dependencies and impacts on resources and relationships 'give rise to sustainability-related risks and opportunities for the entity.' In developing the analytical approach, the staff sought to understand if there were any specific trends, patterns or groupings that could be identified in relation to human capital-related risks and opportunities. By doing so, the ISSB can better understand both the nature and extent of human capital-related risks and opportunities. This can help inform an understanding of what standard-setting or supporting materials might be necessary and how work should be prioritised. It can also provide greater insights

into the specific information that might be of interest to investors, beyond the high-level topical focus established in the first phase of research.

29. The staff identified three interrelated channels through which human capital-related risks and opportunities arise, as illustrated in Figure 5. They are:
- (a) *composition*—risks and opportunities related to the make-up of the workforce, such as the number of workers, their location, the contract types used and the demographics of the workers themselves;
 - (b) *capability*—risks and opportunities related to the extent to which workers can or will carry out work. This includes workers’ ability and competency, that is, their skills, experience and expertise. It also includes the extent to which workers are willing to put those skills to use for the company as a result of, for example, workforce motivation or engagement; and
 - (c) *conditions*—risks and opportunities related to the nature of tasks that workers perform and/or the circumstances in which they perform them. For example, this could include risks and opportunities that arise because workers perform dangerous tasks, such as those involving hazardous chemicals. It could also include, for instance, risks and opportunities related to the working environment, such as whether workers face discrimination and harassment.

Figure 5—Channels through which human capital-related risks and opportunities arise



30. The channels are not necessarily discrete and can both interact with and influence each other. In some instances, an activity by the entity to address one channel can mutually reinforce other channels. For example, an entity may benefit from increased productivity after introducing flexible working (an opportunity arising from a change in the *conditions* at the entity). The introduction of flexible working may increase the entity's appeal to prospective workers, leading to reduced recruitment costs due to ease of hiring (an opportunity related to the *composition* of the workforce). The improved recruitment may also lead to a more skilled workforce. This could lead to increased innovation due to highly skilled staff (an opportunity related to the *capability* of the workforce).
31. There can be trade-offs between the different channels. For instance, an entity may be able to reduce its costs by replacing its in-house health and safety team with outsourced labour (an opportunity arising from the changed *composition* of the

workforce). However, this could lead to an increase in health and safety incidents (a risk arising due to changed working *conditions*) because the outsourced staff may have less understanding of the specific working environment, local conditions and unique hazards in the entity's operations compared to the previous, internal team (a risk arising as a result of the *capability* of the workforce).

32. Traditional risk categories—such as strategic, operational, financial, reputational and compliance risks—can manifest in all of the channels. (See Figure 6.) Taking the example of compliance risk: In relation to composition, an entity could face fines for misclassifying workers as non-employees with consequences for tax compliance. In relation to capability, an entity may face legal penalties if workers are not provided with legally mandated training. An entity could also face compliance risk as a result of conditions, where, for example, the entity faces legal action as a result of an unsafe working environment.

Figure 6—Intersection between types of risk and opportunity and the channels they relate to

	Operational	Reputational	Compliance	
Capability	Ability to use cutting-edge technology due to staff's advanced skills	Brand damage due to strikes	Subject to legal penalties for not providing workers with legally mandated training	Note: These are illustrative examples to demonstrate how the same types of business risk can manifest across channels. This list is not meant to be definitive or exhaustive. For any one entity, specific risks or opportunities would vary based on their circumstances (such as their business model or external environment) and may include types of risk or opportunity beyond operational, reputational or compliance. = Example risks = Example opportunities
Composition	Not enough workers to operate new factory	Publicly lauded for diversity in leadership positions	Fined for misclassifying workers as non-employees	
Conditions	Faces import ban due to forced labour in the value chain	Avoids scandals faced by competitors due to responsible supply chain labour practices	Sued for unsafe working conditions	

33. A single human capital topic could include information about risks and opportunities associated with some or all of the channels. Taking the example of the topic 'pay and benefits':

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- (a) a risk related to the *composition* of the workforce might be increased recruitment costs after an entity's workers leave to work for a competitor with a more attractive pay and benefits package;
 - (b) an opportunity related to the *capability* of the workforce might be improved motivation and, as a result, productivity, after an entity introduces a performance bonus; and
 - (c) a risk related to the *conditions* of the workforce might be fines because an entity has failed to pay workers the legal minimum wage.
34. In each case, the risks and opportunities all relate to pay and benefits, but the risks and opportunities themselves, the channels through which they arise, and the information for which standard-setting or supporting materials might be necessary, are different. It should be noted that any one topic may be more strongly associated with a particular channel, while several or all of the channels can still apply overall.
35. The channels can therefore be used to identify and understand relevant information related to a topic. As a result, applying the channels to the research findings can provide the ISSB with a better understanding of the specific information that investors may need. It also provides increased clarity of analysis to support our research. It does this by providing greater insights into the nature of the specific risks and opportunities related to a human capital topic, rather than focusing on the topic as a whole, which could cover a wide range of information, a significant proportion of which will not be relevant in relation to risks and opportunities. Such an analysis can then be used to inform the ISSB's assessment of what standard-setting or supporting materials, if any, might be necessary.

Application to the ISSB's work

36. The elements outlined in paragraphs 16–35 are designed to enable the ISSB to take a structured approach to evaluating its research on human capital and any potential

recommendations that the staff might develop as a result. We envision several ways in which this analytical approach can be used in the ISSB's work.

Application to the research project

37. The analytical approach will be used to analyse, synthesis, organise and prioritise relevant aspects of human capital-related risks and opportunities as part of the research project. In the research so far, we have primarily used a topical lens to explore human capital-related risks and opportunities. For example, the staff primarily considered evidence of investor interest through the topics and sub-topics that investors reported as being of high or low priority. While this approach has provided valuable, high-level insights into the landscape of information on human capital-related risks and opportunities, a single topic can still cover a significant volume and variety of information, much of which may not actually be relevant for understanding sustainability-related risks and opportunities. By applying the analytical approach to the research findings, the staff can undertake a more nuanced and precise analysis that will yield more insightful and actionable findings for the ISSB.

Synthesis of findings from the research project

38. The current phase of the research project is intended to enable the ISSB to assess whether standard-setting is likely to result in improvements to human capital-related disclosure that will outweigh the costs. To help achieve this aim, the research will synthesise findings from the previous phase to assess potential standard-setting along two dimensions:
- (a) *necessity*—whether there is a clear need for improved disclosure to investors regarding human capital-related risks and opportunities; and
 - (b) *feasibility*—whether there is likely to be a practical and efficient approach to developing disclosure requirements regarding those risks and opportunities.
39. The organising construct can inform each of these aspects of research, as described in paragraphs 40–44.

Necessity

40. Both the groups of workers (paragraphs 19–22) and the channels through which risks and opportunities arise (paragraphs 28–35) can complement the use of topics as a means through which to assess whether standard-setting is necessary.
41. For example, the groups of workers provide a framework to assess whether standard-setting is necessary for workers in the direct operations, for workers in the upstream or downstream value chain, or for all groups.
42. Similarly, the channels of composition, capability and conditions (paragraphs 28–35) can provide a lens for understanding the particular information that might warrant standard-setting or supporting materials, rather than focusing at a purely topical level as was done in the first phase of research. As set out in paragraphs 33–35, a single topic can have multiple, interconnected aspects associated with more than one channel. Articulating what these are can provide a more detailed picture of the potential set of information investors may need in relation to any one topic and when that information may be relevant to understand an entity's prospects. For example, considering how the channels can provide a better understanding of the specific information that may be relevant in relation to the topic of freedom of association and collective bargaining:
 - (a) *composition*—an investor might be interested in information about the number of workers covered under collective bargaining agreements as a proxy for risk exposure;
 - (b) *capability*—an investor might be interested in information about strikes, lockouts or other work stoppages as a lagging indicator of the magnitude of the effects of the workforce's ability or willingness to work on productivity; and
 - (c) *conditions*—an investor might be interested in information about pay, benefits or working conditions as a leading indicator of the likelihood of future disputes over terms of employment.

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43. By approaching the analysis in this way, the staff can therefore present the ISSB with a more precise and detailed understanding of the human capital-related risks and opportunities for which standard-setting is likely to be necessary. Furthermore, the approach will enable the ISSB to reduce the scope of matters being considered and focus on a smaller, more clearly defined subset of high-priority areas of human capital.

Feasibility

44. By developing a more detailed understanding of matters for which standard-setting might be necessary, the staff can then conduct a more targeted analysis of whether such standard-setting is likely to be feasible. This means the staff will be able to identify other disclosure standards, frameworks or reporting practice that might provide the ISSB with a useful starting point for developing requirements or supporting materials associated with particular aspects of a topic—or even particular pieces of information—rather than with topics at large. Again, this will also reduce the scope of areas to be analysed for feasibility, increasing the efficiency of the work.

Recommendations

45. At the conclusion of the Human Capital research project, the staff will make recommendations to the ISSB on whether and how to undertake standard-setting with respect to information about human capital-related risks and opportunities. Before proceeding to standard-setting or the development of supporting materials, the ISSB will need to be satisfied that the project's problem and scope have been well-defined and that potential solutions are sufficiently detailed. By taking this structured approach to analyse, synthesise, organise and prioritise findings, the staff can make more useful recommendations to the ISSB. This will provide the ISSB with a clearer understanding of the scope of work associated with any recommendations. It will also help narrow the scope of the project to enable standard-setting activities or supporting materials focused on a subset of areas with the most clearly defined needs and most practical solutions, and thus where there is the strongest case for action.

Application to potential materials in relation to human-capital related risks and opportunities

46. The concepts outlined in this paper were designed primarily to facilitate a structured approach to the staff's analysis of the research findings. However, components of this approach could also potentially be utilised within future materials, should the ISSB choose to undertake standard-setting on human capital-related risks and opportunities. For example, the channels through which human capital-related risks and opportunities arise could be helpful in communicating the types of information to be disclosed (as is the case with the concepts of physical and transition risk in IFRS S2 *Climate-related Disclosures*). Similarly, the relevant resources and relationships set out in the analytical approach could be used to clarify the scope of information to be disclosed in line with human capital-related metrics and/or targets.

Questions for the ISSB**Questions for the ISSB**

1. Do ISSB members agree that the analytical approach will enable a more nuanced understanding of the research findings?
2. Are there any changes or additions to the analytical approach that would better provide the ISSB with a sufficient understanding of the necessity and feasibility of standard-setting on human capital-related information? If so, how would they strengthen the analysis?
3. Do members of the ISSB have any feedback on the use of the term 'human capital', as set out in Appendix B, in the analysis of the research findings?

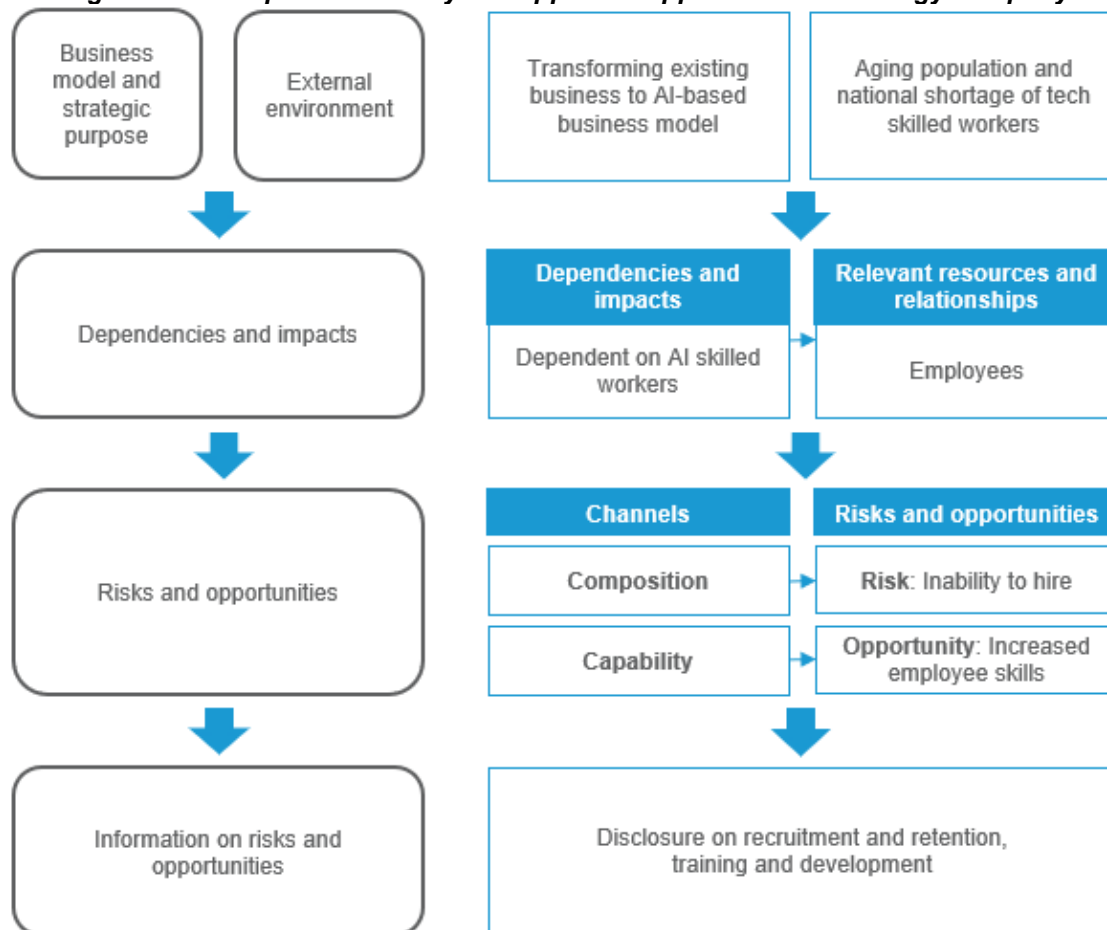
Appendix A—Case study examples of the analytical approach being applied in practice

- A1. The examples in paragraphs A2–A4 demonstrate how the core components of the analytical approach can be used to evaluate a selection of case studies. The examples are not comprehensive. They focus on illustrating how each part of the analytical approach could apply to different fact patterns and do not seek to be complete.

Case study 1

- A2. A technology company is transforming its existing business to an AI-based business model. (See Figure 7.) It operates in a market with an aging population and a national shortage of workers with STEM skills. To address this, the entity provides AI training to its existing employees. It also expands recruitment efforts for AI-skilled employees. A significant number of employees complete the training and increase their skills in AI. The recruitment efforts are less successful and the entity struggles to find external candidates with the relevant skills.

Figure 7—Example of the analytical approach applied to a technology company

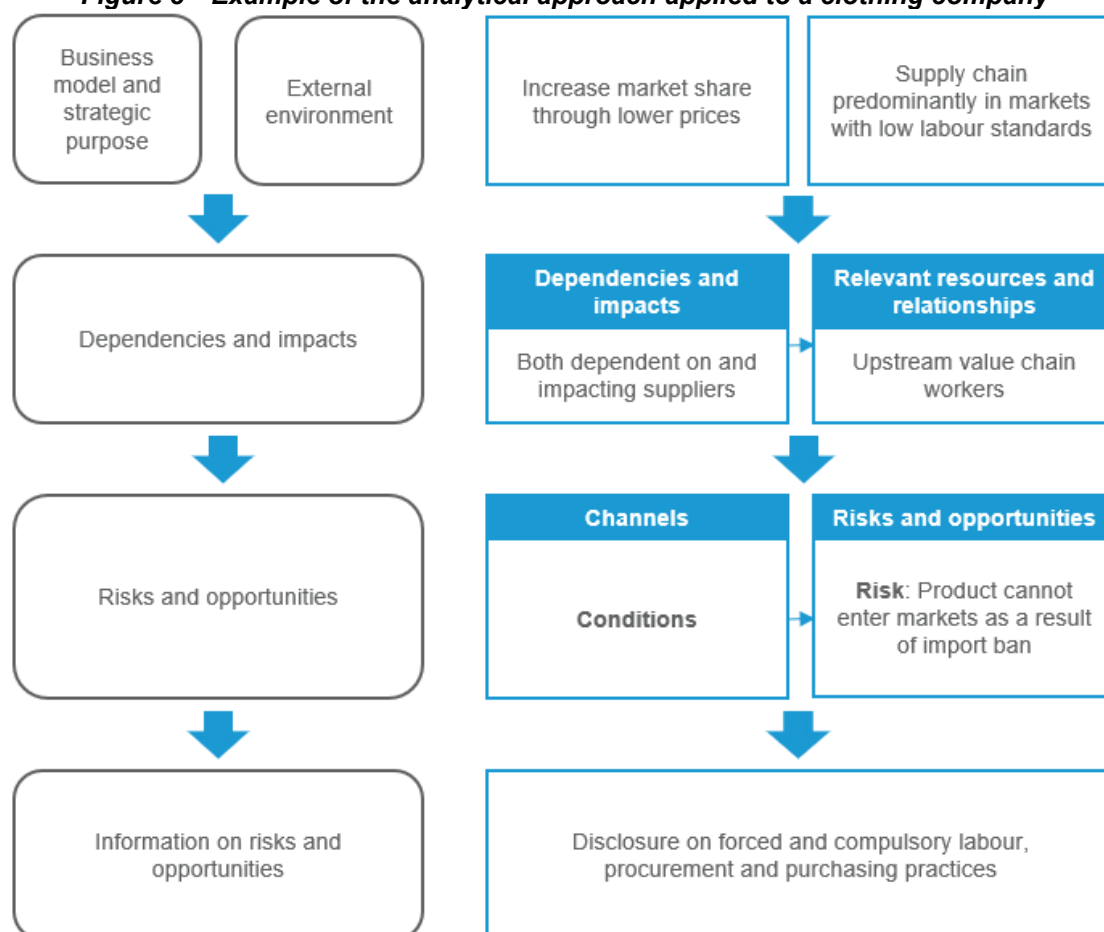


Case study 2

- A3. A clothing company aims to increase its market share by providing lower prices than its competitors. (See Figure 8.) The company has a complex value chain with most suppliers based in jurisdictions with low labour standards. To achieve its strategy, it seeks to reduce the cost of purchasing and increase supply chain efficiency. The company aggressively negotiates lower prices and faster output from its suppliers. It also cuts spending on its supply chain monitoring programmes. As a result, the entity's suppliers seek the cheapest possible labour for their factories, resulting in an increase of incidents of forced labour. Due to the lack of supply chain monitoring, the entity does not identify the incidents. The entity is identified by the authorities of one

of its key markets as selling products made with forced labour and is subject to an import ban as a result.

Figure 8—Example of the analytical approach applied to a clothing company

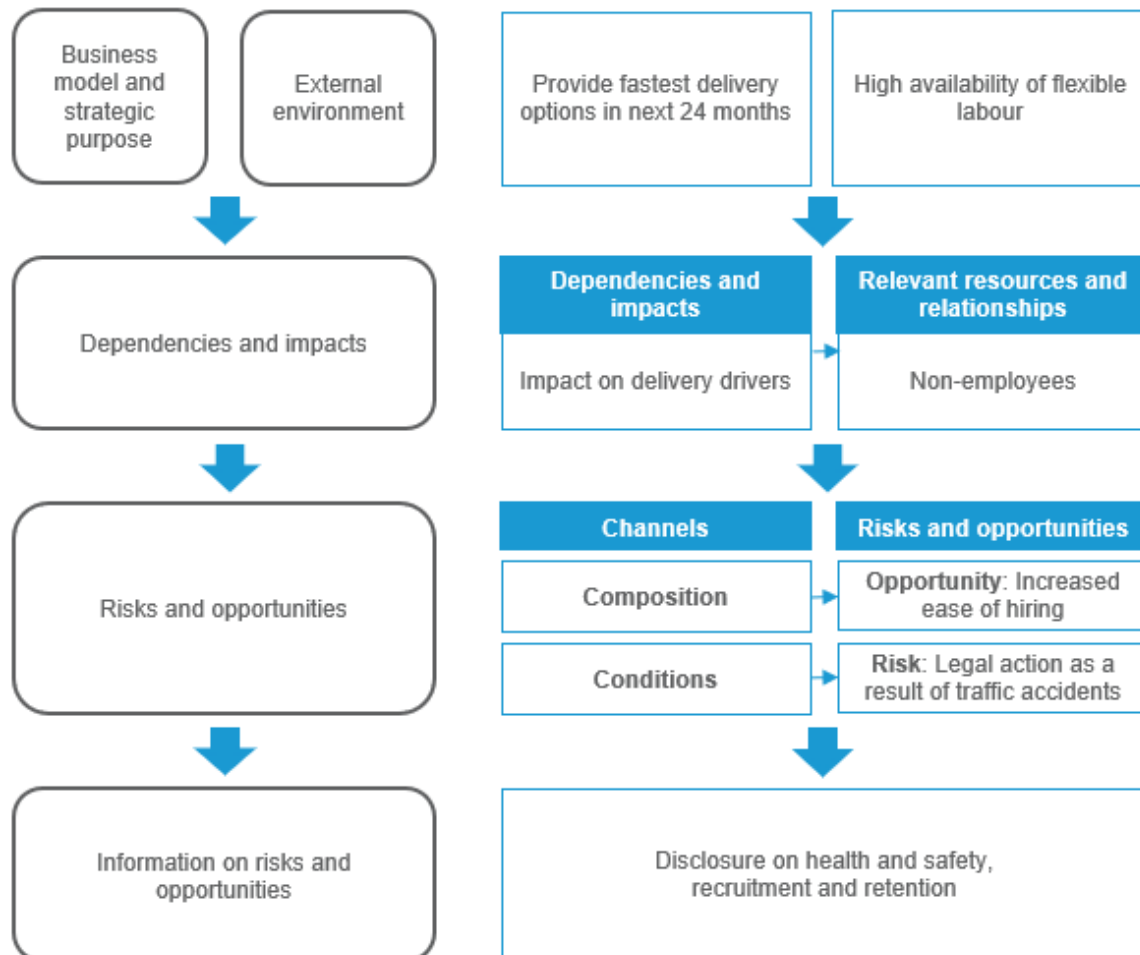


Case study 3

- A4. An e-commerce company sets an objective to provide faster delivery options than its major competitors within the next 24 months. (See Figure 9.) To achieve this, it sets much more ambitious targets for its delivery drivers, who are employed as independent contractors, and rolls out a monitoring programme to evaluate delivery efficiency. It also offers performance bonuses for those drivers who have the highest delivery rates per shift. After introducing these measures, the company sees an increase in traffic accidents involving drivers who are attempting to make deliveries as quickly as possible and it faces legal action as a result. The entity also sees an

increase in applications for open delivery driver roles due to the size of the performance bonuses.

Figure 9—Example of the analytical approach applied to an e-commerce company



Appendix B—Use of the term ‘human capital’

Background on the use of the term ‘human capital’ in the research project

- B1. The stated scope of the ISSB’s Human Capital research project is risks and opportunities related to workers in an entity’s own workforce and workers in its value chain. Throughout the research project, and in particular when developing the analytical approach, the staff has encountered varying definitions and uses of the term ‘human capital’ which often conflict with the framing used in the research project. As a result of this, challenges have emerged in establishing a shared understanding of the project scope, in communicating with stakeholders, and in ensuring research activities and findings align with the project’s objectives.
- B2. Potential issues with the use of the term ‘human capital’ were raised when the Human Capital project was added to the ISSB’s workplan. At that time, the staff suggested as a potential objective of the research project an ‘analysis of alternatives to the project’s name, such as “Labour-related risks and opportunities” or “Risks and opportunities associated with an entity’s own workforce and workers in its value chain,” to enhance clarity and more accurately represent the project’s scope while ensuring alignment with the project’s goals.’⁴
- B3. Given that an explicit objective of the analytical approach is to provide clarity on the nature of key concepts related to human capital, the implications of the use of the term have been an unavoidable consideration as part of this work. As a result, the staff has consolidated an analysis of the varying ways in which the term is used for the ISSB’s consideration and have identified alternative language that the staff thinks would enhance its analysis and ongoing research.

⁴ Paragraph A4, [Agenda Paper 2 Projects to add to the work plan](#) (April 2024)

Overview of ways ‘human capital’ is defined and used

- B4. The concept of human capital was formally introduced in the 1960s, and has evolved significantly since, with definitions varying across disciplines and applications. Broadly, these definitions can be grouped into one of three areas: an economic framing, a human development framing, and a workforce framing.

Economic framing

- B5. Under the economic framing, human capital is defined in terms of the economic implications of an individual’s capabilities. The economic foundation of the term was established by Gary Becker,⁵ who defined human capital as knowledge, skills, and capabilities acquired through education, training, and experience that enhance an individual’s productivity and earning potential. Theodore Schultz similarly characterized it as ‘the productive capacities of human beings as income-producing assets’.⁶ Both these definitions focus on human capital in terms of the economic implications a person’s human capital has for them as an individual.
- B6. Such an economic framing has also been adapted by organisational scholars for management contexts, defining human capital in terms of the present value of a person’s future earning capacity or service potential to an organisation,⁷ while others focused on ‘the knowledge, skills, and abilities residing in and utilised by individuals’⁸ within organisational frameworks. Under these definitions, human capital is considered from the perspective of how it contributes towards an organisation. The definition of human capital used in the IR Framework would, broadly, fall under the economic framing.⁹

⁵ G. S. Becker, *Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education*, University of Chicago Press, 1964.

⁶ T. W. Schultz, ‘Investment in human capital’, *American Economic Review*, Volume 51, Issue 1, 1961, Pages 1-17.

⁷ E. Flamholtz, ‘Conceptualizing and measuring the economic value of human capital of the third kind: Corporate culture’, *Journal of Human Resource Costing & Accounting*, Volume 9, Issue 2, 2005, pp. 78-93

E. G. Flamholtz, *Human Resource Accounting*, 2nd Edition, Jossey-Bass, 1985

⁸ D. P. Lepak & S. A. Snell, ‘The human resource architecture: Toward a theory of human capital allocation and development’, *Academy of Management Review*, Volume 24, Issue 1, 1999, Pages 31-48.

⁹ The IR Framework defines human capital as ‘People’s competencies, capabilities and experience, and their motivations to innovate, including their: alignment with and support for an organization’s governance framework, risk management approach,

Human development framing

- B7. Contemporary institutional definitions have expanded beyond purely economic considerations to encompass broader human development outcomes. The OECD defines human capital as ‘the knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being,’¹⁰ explicitly recognising multidimensional benefits. The World Bank adopts a similarly comprehensive approach, describing human capital as ‘the knowledge, skills, and health that people accumulate throughout their lives,’¹¹ also incorporating health as a fundamental component alongside traditional educational elements.
- B8. The Taskforce for Inequality and Social-related Financial Disclosures uses a definition of human capital that aligns with the human development framing, expressing it as ‘knowledge, skills, health, and other aspects of the state of people, viewed from the perspective of maintaining or providing value to the economy, society and people’s future well-being.’¹²

Workforce framing

- B9. ‘Human capital’ can also be used to refer to an entity’s workforce (for example, as in ‘an entity’s human capital’). This broadly reflects the approach taken by the ISSB’s Human Capital research project (although with a specific focus on risks and opportunities). This definition can cover a wider set of risks and opportunities than the economic definition because it would also include those risks and opportunities that arise in connection to areas other than workers’ knowledge, skills, capabilities and motivations. For example, risks arising through the channel of ‘conditions’, such as

and ethical values; ability to understand, develop and implement an organization’s strategy; loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate’. See page 19, International <IR> Framework, January 2021, available at: <https://www.ifrs.org/content/dam/ifrs/integrated-reporting/framework-and-translations/integratedreporting-framework-061024.pdf>

¹⁰ OECD, *The Well-being of Nations: The Role of Human and Social Capital*, OECD Publishing, 2001

¹¹ World Bank, ‘The Human Capital Project’, World Bank, 2018, available at: <https://hdl.handle.net/10986/30498>

¹² Taskforce on Inequality and Social-related Financial Disclosures, ‘Conceptual Foundations: Understanding relationships between business, finance, people and inequality’, October 2025, <https://www.tisfd.org/>

import bans as a result of forced labour, or legal action as a result of workplace discrimination, would fall outside the scope of a purely economic definition.

- B10. Where the workforce framing is used for human capital, there can be significant variation in the scope of the workforce this refers to. For example, in the market engagement conducted as part of the first phase of the ISSB's research on human capital, investors commonly assumed that human capital information or human capital-related risks and opportunities refer exclusively to workers in an entity's own operations and not workers in the up- or downstream value chain.

Other feedback and considerations

- B11. The staff has also identified several other considerations that are relevant in relation to the use of the term 'human capital':
- (a) *other investor feedback*—during the research project, staff also received feedback from some investors that they consider the term dehumanising and do not use it as a result, instead preferring more people-focused language such as 'workers' or 'the workforce'.
 - (b) *use in sustainability reporting*—use of the term is inconsistent across other standards and frameworks. The US Securities and Exchange Commission uses the term 'human capital' in Item 101(c) of Regulation S-K. Even while using the term, the SEC chose not to define it, saying 'this term may evolve over time and may be defined by different companies in ways that are industry specific.'¹³ The SEC also identified market feedback around the diversity in use of the term, stating 'a number of commenters ... noted that there are many definitions of human capital.'¹⁴ In contrast, neither GRI or the European Sustainability Reporting Standards use the term 'human capital', instead using language such as 'labour', 'workforce', 'employees', or 'people'.¹⁵ The same

¹³ U.S. Securities and Exchange Commission, 'Release on Modernization of Regulation S-K Items 101, 103, and 105', Securities and Exchange Commission, 2020, available at: <https://www.sec.gov/files/rules/final/2020/33-10825.pdf>

¹⁴ Ibid.

¹⁵ For example, ESRS S1 is titled 'Own Workforce' and ESRS S2 is titled 'Workers in the Value Chain'.

can be seen for other investor-focused data frameworks and initiatives. For instance, neither the Workforce Disclosure Initiative nor the Investors Against Slavery and Trafficking Asia Pacific’s core metrics for modern slavery action, disclosure, collection and publication use the term ‘human capital’ at any point in their frameworks. Both instead use the terms ‘workers’, ‘the workforce’ or other similar language.

- (c) *use in IFRS Accounting Standards*—IFRS Accounting Standards do not use the term ‘human capital’. Instead, for example, they refer to ‘employees’ (IAS 19 *Employee Benefits* and IAS 26 *Accounting and Reporting by Retirement Benefit*) and ‘assembled workforce’ (IFRS 3 *Business Combinations*) when referring to an entity’s overall workforce, and ‘key management personnel’ (IAS 24 *Related Party Disclosures*) when referring to a particular subset of the workforce.
- (d) *geographic nature of use of the term*—analysis of market practice, including the staff’s own engagements with stakeholders, suggest there may be geographic trends to the use of the term ‘human capital’. In the ISSB’s investor engagement, it was predominantly investors based in the US and Japan that framed workforce-related risks and opportunities using the language of ‘human capital’ (although, as noted in paragraph B9, often with a different scope to the Human Capital research project). In the context of sustainability reporting, ‘human capital’ is used by the SEC and the Human Capital Management Coalition, both of which are US-focused, but not by the other regional or global initiatives that were considered in the ISSB’s research.¹⁶

¹⁶ More information on the standards and frameworks evaluated as part of the ISSB’s Human Capital research project can be found in [Agenda Paper 4A Background on other human capital-related disclosure standards and frameworks](#) (March 2025).

Alternative approaches

- B12. As demonstrated in the analysis of language used in other standards and frameworks, several alternatives to ‘human capital’ are available. These include ‘workforce’, ‘workers’ or ‘labour’.
- B13. The staff thinks that the use of alternative language may more clearly and accurately describe the scope and focus of the project and the risks and opportunities being addressed. The staff also thinks that alternative language might significantly enhance clarity, facilitate communications and more accurately represent the scope of the project while also aligning with its goals.