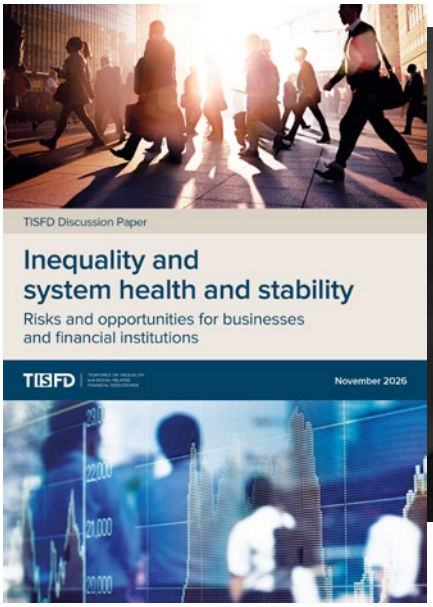
How impacts on people and inequalities can affect business performance and investment returns

A Conversation with Andrea Saldarriaga, TISFD's Technical Director





Andrea Saldarriaga, Technical Director at TISFD, explains why TISFD is examining how inequalities can affect businesses and investors, the four-stage pathway at the heart of its new discussion paper, and how the research will inform the future development of the TISFD Framework.

Q. Why is TISFD looking at inequality and system-level risk now?

Andrea: High and persistent inequalities are affecting the health and stability of economies and societies, with implications for businesses and investors. The G20 Extraordinary Committee of Independent Experts on Global Inequality recently underlined the urgency of the situation in a landmark report: stating: "The available evidence on inequality should concern leaders everywhere. The world understands that we have a climate emergency; it's time we recognise that we face an inequality emergency too."

At the same time, major transitions, including AI and the shift to a lower-carbon economy, may compound these effects through their implications for jobs, incomes and opportunities.

Businesses and investors depend on healthy, resilient societies and economies. Yet compared with climate and nature, understanding of how impacts on people and inequalities can affect these wider systems remains less understood and less consistently integrated into business and investor decision-making. We need to better understand these dynamics and what they could mean for performance, resilience and long-term returns.

Q. What gap is the discussion paper seeking to address?

Andrea: The causes of inequality have been extensively studied, but there is no single, authoritative framework that brings this evidence together in a coherent way. TCFD and TNFD were able to draw on internationally agreed bodies of knowledge on the drivers of climate change and nature loss. There is no equivalent internationally agreed set of drivers of inequality.

That makes it harder to understand how inequalities arise, how they may contribute to wider system-level risks, and what information businesses and investors need to assess those risks. The discussion paper starts to address this gap by bringing together existing evidence and providing a stronger basis for TISFD's future work.

Q. Why do we need a system-level lens on inequality?

Andrea: For investors, understanding entity-level risks is only part of the picture. Impacts on people and inequalities can build up across businesses and sectors and affect the wider societal, economic and financial systems on which businesses and investors depend.

Through this discussion paper and feedback on it, TISFD is seeking to understand how a system-level lens could complement entity-level analysis of company prospects. This will help us determine how the TISFD Framework can help to provide greater visibility on these wider effects and help businesses and investors understand risks

that may not be apparent when looking at individual entities alone.

Q. How does the paper help make these connections clearer?

Andrea: At the heart of the paper is a four-stage pathway. It starts with impact drivers - business and financial-sector activities and practices such as pay, working conditions, sourcing, products, tax and capital allocation. It then considers how these impacts affect people and inequalities, including people's rights, well-being and their economic prospects.

The next stage looks at how these impacts can contribute to changes in societal stability, macro-economic health and financial stability. The final stage looks at the financial effects that changes in these systems can create for businesses and investors. Illustrative transmission channels connect the four stages and help show how these effects can build up and travel through wider systems.

Q. What does this mean in practice for businesses, investors and policy makers?

Andrea: Businesses depend on the health and stability of wider societal, economic and financial systems to operate, grow and create long-term value. Changes in these systems can affect market demand, labour markets, operating conditions and other factors shaping business performance and resilience.

For investors, these effects can extend across entire portfolios. Understanding how investee companies are exposed to - and contribute to - these risks can therefore inform investment and stewardship decisions. It can also encourage investors to look beyond individual companies towards sector-level engagement and allocation, as well as system-level stewardship, including engagement with policymakers.

For policymakers, greater visibility into these dynamics can support more informed policy design and responses. Understanding how impacts on people and inequalities may contribute to changes in societal stability, macro-economic health and financial stability - and how business and financial-sector activities interact with these dynamics - can help policymakers identify where risks are emerging and where policy action may be needed.

Q. How will the discussion paper inform TISFD's wider work?

Andrea: This is a discussion paper, and its purpose is to strengthen the evidence base, gather input and test and challenge our emerging thinking on inequality-related system-level risks.

In Beta Version 0.1 of the Framework, TISFD proposed a general approach to enable disclosure of information relevant to system-level risks, and outlined plans to identify the key drivers relevant to these risks, the pathways connecting them and related metrics.

This discussion paper helps advance that work by providing an evidence base for identifying relevant private-sector drivers and understanding the pathways through which their effects can accumulate and contribute to system-level risks. Building on this analysis, the proposed metrics approach in Beta Version 0.2 includes a core set of metrics on key private-sector drivers of inequalities, grounded in human rights, including labour rights.

Feedback from experts and stakeholders will help us test and refine this thinking and inform the further development of the TISFD Framework.

You can review and feedback on the discussion paper: *Inequality and system health and stability – Risks and opportunities for businesses and investors* here.