



International Organization of Securities Commissions
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المنظمة الدولية لهيئات الأوراق المالية

28 October 2020

Open response to the open letter from CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) proposing avenues for Working together to meet the needs of the capital markets

Regulators and market participants increasingly recognise that climate-related and other sustainability impacts are material to companies' businesses and their future value creation. A growing number of companies and investors are adapting their business and investment strategies to align with a path towards net-zero carbon emissions. And it is now almost universally accepted that failure to integrate environmental, social and governance (ESG) factors into investment decisions constitutes a failure to meet the fiduciary duty to clients and beneficiaries. A good flow of decision-useful information on sustainability factors from the corporate sector is therefore essential.

Securities regulators share the core objectives of protecting investors, maintaining fair, efficient, and transparent markets, and reducing systemic risk. Sustainability issues in general, and climate-related issues in particular, raise important challenges in meeting these core objectives.

The IOSCO Sustainable Finance Network (SFN) report, published in April this year, underscored IOSCO's readiness to play a driving role in this area. Our report highlighted three main areas of concern:

- multiple and diverse sustainability frameworks and standards
- lack of common definitions of sustainable activities
- greenwashing and other investor protection challenges.

Our findings therefore align with the concerns you raise around the reliability, comparability and quality of issuers' sustainability disclosures at the global level. The proliferation of – typically voluntary – frameworks and standards for sustainability reporting presents a challenge to both the preparers and users of corporate reports.

Issuers face confusion as to which standard they should adopt. And for investors and other users, the fragmented reporting landscape leads to incomplete, inconsistent information that

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cannot easily be compared across companies – potentially undermining the efficiency of asset pricing, risk management and capital allocation.

Further to publication of the report, IOSCO established a Board-level Task Force on Sustainable Finance (STF) to address the areas for improvement identified in the report. A dedicated workstream of the Taskforce has a specific focus on improving securities issuers' sustainability-related disclosures. This work has been underway since June. Reflecting IOSCO's core objectives, the group is committed to promoting transparency in markets by identifying the most decision-useful categories of disclosures for investors and other market participants; and by considering how IOSCO can influence the direction of ongoing industry initiatives in this area.

In our work, we are considering the scope for improvement in sustainability-related disclosures on two main dimensions:

- *Content.* Here, the focus is on the provision of information that meets the needs of global capital markets and supports business, risk and investment decisions. Sustainability is a global challenge. Capital markets need a flow of reliable, internationally-consistent, comparable and decision-useful information to support asset pricing and capital allocation across their portfolios; and to help design and develop the sustainable finance products that end-investors increasingly need.
- *Governance, due process and the public interest.* To uphold the integrity of capital markets, the system for corporate reporting must be transparent, independent and serve the public interest. Our recent report notes that the success of IFRS and ISA standards reflects certain key attributes including: (i) public accountability and the independence of its respective standard setting bodies; (ii) rigorous, transparent and participatory due process; (iii) a clear mission statement and a defined targeted audience; (iv) assurance standards applying to the information published; and (v) a robust process for selecting topics for new standard setting that focus on specific accounting issues where enhanced comparability would be meaningful.

We are delighted to see the progress that is being made on both dimensions.

Content

On content, we welcome the publication of your Statement of Intent and the Open Letter and your public commitment to collaborate towards a comprehensive corporate reporting system

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that meets stakeholders' information needs on both enterprise value creation and sustainable development. And does so in a manner that is integrated with financial reporting.

We are encouraged to learn that, as a follow-up to the Statement of Intent, you are working together to develop a tangible example of how the recommendations of the Taskforce on Climate-related Financial Disclosures and the content of your respective frameworks and standards can be brought together to form the basis for a climate-related reporting standard. Such a 'prototype' can helpfully demonstrate the practical interoperability of your respective frameworks, standards and platforms and give the market confidence that a practical international solution can be achieved in the near future.

We believe that the 'building blocks' approach outlined in the Statement of Intent has the potential to deliver an integrated and consolidated set of disclosures that meets multiple stakeholders' needs. The approach can help to deliver much-needed transparency both on how sustainability impacts companies' performance and enterprise value creation (financial materiality), and how companies contribute to sustainable development (environmental and social materiality). We note that the proposed approach would also permit the addition of jurisdiction-specific add-ons. We think this flexibility is important.

Governance, due process and the public interest

And on governance, we welcome the consultation paper recently published by the Trustees of the IFRS Foundation, seeking stakeholders' input on the role the Foundation can play in developing global sustainability reporting standards. This consultation is an important milestone. It offers an important opportunity for stakeholders to engage on the high-level options for the IFRS Foundation, including the establishment of a new Sustainability Standards Board (SSB) that leverages its longstanding experience and credibility setting international standards.

The IFRS Foundation's proposals could accelerate progress in this area, by delivering an established infrastructure with a robust and tested governance architecture, a clear public interest focus, and sound due process mechanisms that can foster global acceptance.

We note the 'requirements for success' that the Trustees set out in set out in the consultation paper. We agree that these requirements should be a prerequisite to the IFRS Foundation's establishing an SSB. It will be critical that the IFRS Foundation maintains the adequacy of its existing governance arrangements, brings in the right expertise and is appropriately funded and resourced. Furthermore, it should retain the main features of its due process, based on extensive outreach and engagement with key stakeholders. Meeting these requirements will

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help to ensure that the IFRS Foundation can take on a role in setting sustainability standards without compromising its existing mission and the high-quality standard setting process in the IASB.

IOSCO stands ready to be involved in the design of the governance aspects of the comprehensive global corporate reporting system if the IFRS Foundation decides to move ahead following the feedback to its consultation paper.

IOSCO's role and the path forward

We welcome your invitation to IOSCO to engage meaningfully with both initiatives and to play a leading and critical role in this global endeavour. We are pleased already to be working closely both with your organisations and with the IFRS Foundation. We appreciate the open and constructive dialogue that we have enjoyed so far, and your willingness to help us build the evidence base that we need to support our work in this area.

While to date the two initiatives have been running in parallel, we are keen to see them come together. We consider the two initiatives to be highly complementary.

As noted, we agree that there is an urgent need to improve the completeness, consistency and comparability of sustainability reporting. Together your joint initiative and that of the IFRS Foundation have the potential to help address the two dimensions of *content* and *governance* that we introduced above. In doing so, they can set the foundations of a global system architecture that will deliver a more coherent and comprehensive corporate reporting system.

So, we agree that close engagement with these initiatives is important. We believe that IOSCO is in a unique position to help in this process – just as we did 20 years ago when we endorsed IFRS for use in cross-border offerings and listings and set the foundations of the current three-tier governance structure that the IFRS Foundation enjoys today.

We look forward to continuing and deepening our collaboration with your organisations and the IFRS Foundation. An important aim will be to help ensure that these initiatives proceed towards convergence in a coordinated way that meets the needs of capital markets and serves the public interest.

Yours sincerely,

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