IOSCO sees an urgent need for globally consistent, comparable, and reliable sustainability disclosure standards and announces its priorities and vision for a Sustainability Standards Board under the IFRS Foundation

The IOSCO Board met today and discussed the progress made over the past year by its Sustainable Finance Task Force (STF). IOSCO sees an urgent need to improve the consistency, comparability, and reliability of sustainability reporting, with an initial focus on climate change-related risks and opportunities, which would subsequently be broadened to other sustainability issues.

Since the publication of its report, Sustainable Finance and the Role of Securities Regulators and IOSCO, in April 2020, the STF has made progress in its work on securities issuers’ sustainability disclosures, asset managers’ disclosures and investor protection, and the role of ESG data and ratings providers. In particular, for its work on issuers’ disclosures, IOSCO has observed that investor demand for sustainability-related information is currently not being properly met. For instance, companies often report sustainability-related information selectively, referencing different frameworks.

Since financial markets rely on full, accurate, and timely disclosure of financial results and other information that is material to investment decisions, the STF will continue its work to improve the consistency, comparability, and reliability of sustainability disclosure. In line with its objectives, the IOSCO Board identified three priority areas for improvement in sustainability-related disclosures by companies and asset managers:

i. **Encouraging Globally Consistent Standards.** To encourage progress towards globally consistent application of a common set of international standards for sustainability-related disclosure across jurisdictions, covering the breadth of sustainability topics and leveraging existing principles, frameworks, and guidance.

ii. **Promoting Comparable Metrics and Narratives.** To promote greater emphasis on industry-specific, quantitative metrics in companies’ sustainability-related disclosures and standardization of narrative information.

iii. **Coordinating Across Approaches.** To drive international consistency of sustainability-related disclosures with a focus on enterprise value creation, including companies’ dependence on stakeholders and the external environment, while also
supporting mechanisms to coordinate investors’ information needs on wider sustainability impacts— and (i) to promote closer integration of those two aspects with reporting under current accounting standards frameworks and (ii) facilitate independent assurance of companies’ disclosures.

To this end, the IOSCO Board is committed to working with the IFRS Foundation Trustees and other stakeholders to advance these priorities. IOSCO’s engagement with the Trustees will focus on the following objectives:

i. Establishing an SSB with a Strong Governance Foundation

IOSCO welcomes the announcement by the Trustees of the IFRS Foundation on 2 February 2021 signalling the next phase of their work towards establishing a Sustainability Standards Board (SSB) under the IFRS Foundation structure. The Trustees noted the “growing and the urgent demand to improve the global consistency and comparability in sustainability reporting” and reported that they received clear feedback that the IFRS Foundation should play a role in this area. IOSCO looks forward to engaging with the Trustees as they develop a proposal over the coming months.

IOSCO will work with the IFRS Foundation Trustees as they develop a plan for the establishment of an SSB, to sit alongside the International Accounting Standards Board (IASB) under the existing governance structure, with a view to delivering an effective system architecture for setting sustainability disclosure standards that could:

a. command sufficient market acceptance to serve as baseline for consistent and comparable approaches to mandatory sustainability-related disclosures across jurisdictions;

b. be compatible with existing accounting reporting standards and promote good governance of sustainability-related disclosures among preparers; and

c. form the basis for the development of an audit and assurance framework.

IOSCO looks forward to assessing the final proposals by the Trustees of the IFRS Foundation, particularly since these criteria will be key factors for IOSCO’s consideration of future endorsement of the proposed SSB and its standards. IOSCO, as a membership organization of the world’s securities regulators, will have an essential role to play in evaluating the standards issued by the SSB for use for cross-border purposes in issuers’ sustainability-related reporting requirements, and in encouraging members and relevant authorities to consider these standards when setting sustainability-related disclosure requirements at national and regional
levels. IOSCO plays a similar role in the endorsement and oversight of international accounting standard-setting by the IASB.

Given IOSCO’s role in chairing the Monitoring Board of the IFRS Foundation, we are also committed to playing a leading role in monitoring the related governance arrangements.

ii. Building on Existing Efforts

IOSCO encourages the SSB to leverage the content of existing sustainability-related reporting frameworks. Building on the efforts of existing sustainability reporting organizations will give the IFRS Foundation a running start in developing a common set of international standards for sustainability-related financial reporting to investors.

In addition, IOSCO welcomes the initiative of the alliance of leading sustainability reporting organisations (“the Alliance”) and efforts to explore how the combination of their respective principles, frameworks, and guidance can form the basis for a future common set of international standards for sustainability-related disclosures. The Alliance published a prototype for an approach to climate-related disclosures that builds on the recommendations of the Task Force of Climate-related Financial Disclosures (TCFD) and adopted the form and structure of the IFRS Foundation’s financial reporting standards.

IOSCO welcomes these efforts and encourages further consideration of this prototype as a potential basis for the SSB to develop climate-related reporting standards. More generally, IOSCO encourages the key initiatives focussed on enterprise value reporting to continue providing technical observations and recommendations that can enable a running start.

Given the urgency of the climate challenge, IOSCO supports a “climate first” approach in the near term. However, the IFRS Foundation should also move forward quickly to develop standards covering other sustainability topics, including environmental, social, and governance (“ESG”) issues.

iii. Encouraging a “Building Blocks” Approach

IOSCO encourages a “building blocks” approach to establishing a global sustainability reporting system. This would provide a consistent and comparable baseline of sustainability-related information that is material to enterprise value creation, while also providing flexibility for coordination on reporting requirements that capture wider sustainability impacts.

IOSCO aims to support ongoing international coordination between enterprise value-focused standards to be determined by the SSB and standards related to wider
sustainability impacts, and to help encourage global consistency on wider sustainability disclosure requirements. To this end, IOSCO will work with the IFRS Foundation, the Alliance, and other relevant stakeholders to establish additional coordination mechanisms.

To facilitate such coordination, IOSCO is ready to explore the establishment of a multi-stakeholder expert consultative committee within the IFRS Foundation structure. Such a committee could help the SSB identify relevant sustainability topics that may be material to enterprise value creation, while also supporting mechanisms to coordinate investors’ information needs on wider sustainability impacts, as well as facilitating, coordinating, and promoting consistency in complementary jurisdiction-specific reporting standards.

IOSCO believes that these initiatives will collectively help deliver high-quality international disclosure standards that provide the content that capital markets need, within a transparent standard-setting architecture and a robust and inclusive governance structure.

Ashley Alder, IOSCO Chair and Chief Executive Officer of the Securities and Futures Commission (SFC) of Hong Kong, said: “There is an urgent demand to improve sustainability reporting in a way that meets market needs. I believe that IOSCO is in a unique position to underpin market acceptance of high-quality sustainability disclosure standards by endorsing the system architecture for sustainability standard setting under the IFRS Foundation – just as we did 20 years ago when we endorsed IFRS financial reporting standards.”

Erik Thedéen, Chair of the IOSCO Sustainable Finance Task Force and Director General of Finansinspektionen of Sweden, said: “IOSCO proposes a pragmatic approach supporting ‘climate first’, though with a clear path to covering the breadth of sustainability topics, and to drive international consistency on core enterprise value-related information while establishing a mechanism that supports interoperability with jurisdiction-specific requirements.”

NOTES TO THE EDITORS

About IOSCO

1. IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in some 130 jurisdictions and it continues to expand.

2. The IOSCO Board is the governing and standard-setting body of the International Organization of Securities Commissions and is made up of 34 securities regulators. Mr. Ashley Alder, the Chief Executive Officer of the Securities and Futures Commission of Hong Kong, is the Chair of the IOSCO Board. The members of the IOSCO Board are the securities regulatory authorities of Argentina, Australia, Bahamas, Belgium, Brazil, China, Egypt, France, Germany, Hong Kong, India, Ireland, Italy, Japan, Korea, Malaysia,
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Mexico, Morocco, Nigeria, Ontario, Pakistan, Portugal, Quebec, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Arab Emirates, the United Kingdom and the United States of America (both the U.S. Commodity Futures Trading Commission and U.S. Securities and Exchange Commission). The Chair of the European Securities and Markets Authority and the Chair of IOSCO’s Affiliate Members Consultative Committee are also observers.

3. The Growth and Emerging Markets (GEM) Committee is the largest committee within IOSCO, representing close to 80 per cent of the IOSCO membership, including 11 of the G20 members. Dr. Obaid Al Zaabi, Chief Executive Officer, Securities and Commodities Authority, United Arab Emirates, is the Chair of the GEM Committee. The committee brings members from growth and emerging markets together and communicates members’ views and facilitates their contribution across IOSCO and at other global regulatory discussions. The GEM Committee’s strategic priorities are focused, among others, on risks and vulnerabilities assessments, policy and development work affecting emerging markets, and regulatory capacity building.

4. IOSCO aims through its permanent structures:

   • to cooperate in developing, implementing, and promoting adherence to internationally recognized and consistent standards of regulation, oversight, and enforcement to protect investors, maintain fair, efficient, and transparent markets, and seek to address systemic risks;

   • to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and

   • to exchange information at both global and regional levels on their respective experiences to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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