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High-Level panel
Recent trends and key challenges in enterprise reporting agenda and impact of COVID-19

Keynote address

by

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Thank you for the opportunity to speak at this ISAR session. I would start with a disclaimer that my statements do not bind IOSCO or its Board in any way.

Let me take a couple of minutes to introduce my organization, IOSCO to the delegates. The international organization of Securities Commissions is the global standard setting body of securities regulators who together regulate more than 95% of the world's capital markets. The objectives of IOSCO and its over 110 members are **threefold**: protecting investors, maintaining fair, efficient, and transparent markets, and reducing systemic risk.

We cannot over-emphasize the importance of the cooperation among market regulators through IOSCO both during normal times and crises. Speaking of "**normal times**" the cross-border element of financial markets is becoming more and more significant and there is a need to avoid harmful market fragmentation. With regard to **crises**, during the early days of the pandemic, the IOSCO Board and other committees met on a **weekly** basis to learn from each other about the measures they were taking to help with market functioning and ensuring proper supervision. IOSCO issued a statement about keeping markets open because there is a crucial link between financial markets and the real economy, including the healthcare sector-- to help raise capital, for price discovery and hedging.

In this context, IOSCO recognises the importance of sustainable finance, including sustainability reporting. Sustainability issues in general, and climate-related issues in particular, raise important challenges in meeting the three core objectives I mentioned above, namely investor protection, fair efficient and transparent markets, and the reduction of systemic risk. The Covid-19 pandemic has only heightened the focus on sustainability issues.

Regulators and market participants increasingly recognise that climate-related and other sustainability impacts are material to companies' businesses and 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. A good flow of information from the corporate sector on sustainability factors that is **decision useful** is therefore essential.

We had earlier set up a IOSCO Sustainable Finance Network which published its report in April this year 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 that have been raised by many around the reliability, comparability and quality of issuers´ sustainability disclosures at the global level. The proliferation of frameworks and standards for sustainability reporting-- which are typically voluntary in nature-- can present 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 cannot easily be compared across companies.

Further to publication of the SFN report, IOSCO established a Board-level Task Force on Sustainable Finance (STF) to address the areas for improvement that were 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 ident**ifying 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.
- *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.

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

Content

On content, we welcome the publication of the Statement of Intent of the leading sustainability and integrated reporting organisations-- many of whom are represented in the panel to follow-- and their Open Letter to the Chair of the STF, Erik Thedeen. It is encouraging to see their public commitment to collaborate towards a comprehensive corporate reporting system 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 also encouraged to learn that these standard setting bodies are working together quite speedily to develop a tangible example of how the TCFD recommendations and the content of their frameworks and standards can be brought together to form the basis for a climate-related reporting standard. Such a 'prototype' for a climate standard can helpfully demonstrate two things: the practical **interoperability** of the respective frameworks and standards; and give the market **confidence** that a practical **international solution** can indeed be achieved in the **near future**.

We believe that the global 'building blocks' approach that has been outlined by this alliance of standard setters has the potential to deliver the disclosures that meets the needs of multiple stakeholders. 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 and we welcome the opportunity to continue to engage with the European Commission and EFRAG who are also on the panel given their initiatives in this area. In fact the European Commission and IOSCO share a joint interest also in avoiding harmful market fragmentation and they were closely involved in our report on the use of deference earlier this year.

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 possible 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**.

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

While to date the two initiatives- of the standard setters and of the IFRS Foundation-- have been running in parallel, we are keen to see them come together. We consider the two initiatives to be highly complementary. Together the initiatives of the standard setters and of the IFRS Foundation have the potential to help address the two dimensions of *content* and *governance* that I mentioned above. In doing so, they can set the foundations of a global system architecture that can deliver a more coherent and comprehensive corporate reporting system that investors and other stakeholders are crying out for.

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.

It will therefore be important to ensure that these initiatives proceed *towards convergence* in a coordinated way that meets the needs of capital markets and serves the public interest and avoids harmful market fragmentation that could be regulatory-driven. IOSCO stands ready to play its role in the area of developing this crucial system architecture.

Thank you for your attention.