Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

37th SESSION
2 – 6 November 2020

Thursday, 5 November 2020

Agenda item 4. Climate-related financial disclosures in mainstream entity reporting: Good practices and key challenges

Keynote address

by

Erkki Liikanen
Chair
International Financial Reporting Standards Foundation Trustees

Sustainability and climate change are global challenges, and there is now growing focus on how companies perform and report on these matters. So sustainability reporting is continuing to increase in importance for various stakeholders.

Notwithstanding differences in scope and motivation, most stakeholders share a common message: there is an urgent need to improve the consistency and comparability in sustainability reporting.

Comparable and consistent standards would allow businesses to build public trust through greater transparency of their sustainability initiatives, which will be helpful to investors and an even broader audience.

Large institutional investors demand better disclosure of climate risks and sustainability indicators. These investors use sustainability reporting to inform their decisions and want comparable and verifiable information. Investors are, together with companies, the driving force behind the increasing number of calls for clear, consistent and comparable sustainability information.

Increasing numbers of companies are committed to developing their sustainability reporting. Such commitment is driven by regulation, consumer behaviour, investor demand and the recognition of the impact that managing sustainability risks can have on long-term value creation. Many consider the current practice of sustainability disclosure is inefficient due to a lack of commonly accepted standards and the inability to compare the reported information. Companies also lack clarity about how they should report on the impact of climate-change and the transition to a green economy.

As important drivers of their financial stability work, central banks are increasingly focused on climate-related risks and sustainability more broadly. Prudential regulators are starting to incorporate climate analyses into stress tests, and regulatory stress testing of banks and insurers increasingly includes estimates of climate-change impacts.

Regulators’ involvement in sustainability reporting is influenced by their governments’ public policy positions. Consequently, regulators’ views of sustainability reporting are more prominent in some regions, such as Europe or China, where securities and banking regulators are key leaders of policy initiatives. However, the International Organization of Security Commissions (IOSCO) is also currently considering how its members could be involved in sustainability reporting.

In response to public policy initiatives to tackle climate change, companies will need to adapt their business models to become compatible with net zero carbon-emission targets that major jurisdictions have set in line with financial markets that are evolving to a net-zero world. Policy makers also expect that, in their reporting, companies may have to consider global public policy initiatives relating to climate change.

Auditing firms and other service providers develop and assess reporting frameworks. Auditing firms could play a major role in providing assurance if sustainability reporting were to be standardised and the information provided.

Many important sustainability reporting initiatives already exist, including those at a regional level. When the challenges are global, the most optimal would be global solutions working in harmony with regional initiatives.

There is an increasing number of calls for standardisation and comparability of reporting on these matters. Some have argued that the IFRS Foundation should play a role in this area. One reason is that IFRS Standards, developed by the Foundation's standard-setting body, the International Accounting Standards Board, are required for use in more than 140 countries.

At the IFRS Foundation, the Trustees review the strategy every five years. We are preparing for such a review now. It is an opportunity and a duty for us to consider key strategic issues in this context.

We have decided to look at sustainability as a separate topic. And that is why we have prepared a Consultation Paper, which was published at the end of September and is open for comment until the end of the year.

The first question is: is there demand for sustainability standards at a global level?

If replies lead to a positive consensus, another question follows: should the IFRS Foundation play a role in this area? Our Consultation Paper sets out possible ways forward, if the IFRS Foundation is asked to play a role.

One option is to establish a new, separate sustainability standards board. This board would sit alongside the International Accounting Standards Board within the IFRS Foundation. This approach has merit for both boards, given the increasing impact of sustainability and climate-related matters in companies' financial statements. Many jurisdictions are beginning to require that companies provide climate-related disclosures in addition to the disclosures required by IFRS Standards.

But for this option to be successful, several conditions should be met.

Support is needed from public authorities, global regulators and other market stakeholders. A new board should work with regional authorities to achieve global consistency and reduce complexity in reporting. One important pre-condition is an appropriate level of resources, including separate funding and appropriate technical expertise. You also need an adequate governance structure.

The process could build gradually, starting with a focus on climate-related reporting standards. Naturally, the work would take into consideration existing developments and various initiatives in the field. The big five ESG international standard-setters in this area respond positively to the publication of our document and commit to working jointly with us to deliver the optimum solution.

I still want to reiterate: this is a demand-driven process. If demand exists, then we will look to examine how to move forward. If you have views on this topic, whatever they are, please let us know. If there is no demand, then there is nothing more for us to do. It's down to you.