

## Pathways to net zero

### Keynote speech at the Green Horizon Summit @ COP26

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Global financial markets have witnessed a flood of investment into sustainability-related products, all as part of the effort to finance the greening of the international economy.

This rapid growth of environmental, social and governance (ESG) investment—while commendable in its intentions—has given rise to an increasingly fragmented regulatory landscape, characterised by a variety of regimes and voluntary sustainability reporting frameworks. This jumble reflects a growing recognition of the material impact of climate change and other ESG risks on corporate performance. But it has also given rise to sustainability reporting which is incomplete and inconsistent across jurisdictions, industries and companies.

This lack of reliable data hinders investors' ability to make informed decisions, raising concerns around mispricing of assets, misallocation of capital and the associated risk of greenwashing.

We all know that sustainable finance has to deliver trillions of dollars of private capital to enable us to have a chance of realising net zero targets. But to achieve this, investors must have trust in markets and the information they receive through them. The International Organization of Securities Commissions (IOSCO), as a body of market regulators, is helping to chart the way forward.

#### Why the ISSB standards are so important

A few months ago, IOSCO identified the IFRS Foundation as the organisation best suited to launch an international standards setting board focused on enterprise value creation and a “climate first” approach to the development of ESG disclosure standards. The IFRS Foundation's announcement yesterday about the formation of an International Sustainability Standards Board (ISSB) was a pivotal moment for us. In our view, the new board under the IFRS Foundation umbrella offers the most credible mechanism for creating a baseline of disclosure standards, enabling a confusing picture to be superseded by a properly aligned global approach.

The ISSB's standards are of special relevance to IOSCO because they will provide key information for the markets supervised by its members. These standards will be designed in the public interest and should be capable of being implemented across developed and developing markets.

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Note: This is the text of the speech as drafted, which may differ from the delivered version.

Relevance for developing markets is critical given the volume of emissions generated and in light of discussions about a just transition. For example, in Hong Kong, we have already identified the ISSB standards as a potential key aspect of a sustainable finance strategy for a market which serves to connect vast amounts of global capital with a very large number of leading mainland China businesses. It follows that the adoption of the forthcoming climate standard by Hong Kong, as a sustainable finance hub, would be of global significance.

*First, the content must be fit for purpose for markets*

Crucially, the ISSB will develop a comprehensive global baseline of corporate climate disclosure standards which meet the information needs of investors. They will enable investors to align their investment strategies with the global transition to net zero and will also mitigate the ever-present risk of greenwashing.

This will also enable the whole “stack” of climate finance professionals, from fund managers to ESG ratings firms, to raise their game in order that end investors have justified confidence in the products offered and information supplied to them. ESG ratings are currently hampered by subjectivity, transparency issues and serious inconsistencies in methodology. In addition, asset managers struggle to describe accurately how they manage climate risks at both firm and portfolio levels.

IOSCO has recently published two reports detailing how asset managers and ESG ratings providers are expected to operate in order to minimise these problems. However, the key point is that these expectations can only be fully realised if we achieve the quality of real economy corporate sustainably disclosures of the type envisaged by the ISSB.

This is why IOSCO was heavily involved in the technical preparations for the prototype climate standard published yesterday. The idea is that this will provide the new ISSB with a running start in developing a final, enhanced global baseline based on best-of-breed practices and proven content sourced from the most widely adopted frameworks and standards now in use.

*Second, standards must embody the public interest and should be capable of being implemented across jurisdictions*

The baseline disclosure standard can also cut a clear pathway to the adoption of a mandatory standard if jurisdictions choose to take that route. This is important because, in order to hold corporates properly accountable, the standard should be sufficiently enforceable. It is also crucial that it is an open standard which allows jurisdictions to build on the baseline to accommodate their own sustainability needs and circumstances.

Confidence in the standard setting process is also vital from the public interest perspective. The IFRS Foundation approach is underpinned by a robust governance structure centered on a technically-expert independent board and the Trustees of the IFRS Foundation who have a clear mandate to operate in the public interest. There is also intensive private and public sector engagement throughout the standards development process. All these layers are ultimately accountable to global public sector authorities, represented by a Monitoring Board chaired by IOSCO.

### **Pathway to a global baseline**

Given the extreme fragmentation of the standard-setting landscape, concerns have been expressed about achieving global sustainability standards. Our response is straightforward:

IOSCO can act as the bridge for the implementation of global standards for sustainable reporting across our large membership of market regulators. We need not reinvent the wheel. IOSCO's endorsement of international financial reporting standards 20 years ago paved the way for our members to adopt those standards domestically. We can do this again for sustainable finance disclosure standards.

The IOSCO bridge is built on two pillars I have already mentioned: First, oversight of the quality of governance and processes through the Monitoring Board. Second, a detailed technical assessment of the content of ISSB standards. If our expectations are met, the IOSCO Board would then endorse the new standards for over 130 market regulators.

In deciding whether to endorse, IOSCO will consider the standards' potential for achieving international consistency, and how they interrelate with conventional financial reporting. We will also look at whether the standards provide a sound basis for an assurance framework similar to that used for financial reporting. This is especially challenging due to the forward-looking nature of climate disclosures. Therefore, IOSCO is looking to strengthen the assurance framework, which can enhance the confidence investors should legitimately place in disclosures produced under ISSB standards.

### **Conclusion**

While dealing with the climate emergency is mainly a matter for governments, the measures I have discussed can make a real difference. They can build investor trust, encourage essential investment flows into sustainable products and hold companies to account for their net zero claims.

Leading international sustainability standard setters have agreed to merge with the ISSB, which is a hugely significant development. They have already contributed significant resources to the production of the climate prototype standard. IOSCO believes that this convergence of standards and organisations is the key to the success of a global standard, and is to be commended.