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COP26
Green Horizons Summit
Remarks by Erik Thedéen,
Chair IOSCO Sustainable Finance Task Force
Glasgow, 4th November 2021

Thank you for the opportunity to speak at the Green Horizon Summit. It is an honour to share the stage with eminent colleagues at this crucial moment and to explain the progress in IOSCO's recent work on sustainable finance.

This work has focused on issuers and asset managers' disclosures. But we have also focused on the role of ESG data and ratings providers, given their important role in the ecosystem we need for effective sustainable finance.

A common thread throughout has been our focus on ensuring that investors receive timely, comprehensive and comparable information, as a means to mitigate greenwashing.

The relevance of Issuer Disclosures

To start with I'd like to re-emphasise the importance of the IFRS Foundation's effort to establish the ISSB which Ashley has spoken about. I am particularly pleased by the IFRS Foundation's announcement of the creation of a new International Standard Setting Board.

IOSCO identified the IFRS Foundation as the vehicle to develop a global baseline for investor-oriented sustainability standards. The Foundation, with its well-tested governance structure, its best-in-class reputation in setting international reporting standards and its proven record of transparent and inclusive due process, is now ready to deliver this global baseline through the ISSB.

This is an important milestone: climate change is a challenge that requires a global response, and the ISSB will be instrumental in supporting global action.

The ISSB global standards are the right tool to respond to the existing 'alphabet soup' of voluntary sustainability disclosures. They can drive much-needed international consistency and comparability in sustainability-related information, laying the groundwork towards high quality mandatory reporting.



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I would also like to commend the IFRS Foundation and its Technical Readiness Working Group for the publication of the prototype climate standard. Having observed this work, we think it will help speed up standard setting by the ISSB.

A fundamental aspect for the success of the ISSB standards as a common global baseline is its interoperability with any additional reporting requirements that jurisdictions may set beyond the baseline. I particularly welcome the fact that the IFRS Foundation has taken onboard our recommendation as to how to foster interoperability, which is to form a multi-stakeholder expert consultative committee to advise the ISSB.

Interlinkages between the three areas of IOSCO's work

Capital markets can support the transition to a more sustainable economic model only if market participants have access to sound sustainability metrics and if, in marketing their ESG products to investors, they do not fall into the trap of greenwashing. As we have made clear in our report, just published, on asset manager disclosures, greenwashing is a reality today in financial markets in many complex ways. We need to fight green washing, as this is a threat to not only consumer protection, but – as important – green washing could also threaten the credibility of sustainable finance more generally, which would be clearly negative for the much needed transition to long term sustainable investments, not least for fighting climate change. Internationally consistent and comparable sustainability-related information is essential to bringing this to an end.

As investors have increasingly demanded ESG investment options, they have become reliant on external data and ratings providers for sustainability information. These ratings and other data products will play an important role in investment decision making, particularly as they can shine light on different aspects of an issuer's ESG strategy.

We will publish shortly our report on ESG ratings and data product providers, where we call for transparency on how providers develop their ratings and good governance, free from conflicts of interest, to increase trust in the outcome of the ratings. These efforts should also allow asset managers to make informed decisions.

But the activities of asset managers themselves and how they market their ESG products to investors also matter, and this is the focus of the report on asset manager disclosures which I have just mentioned.



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Disclosing all material risks for sustainability-related products can enable investors to better understand the impact of those risks on a product's overall performance. Requirements relating to naming sustainability-related products can also help prevent greenwashing by ensuring that products that wish to identify themselves as sustainable do what they say on the tin. This can serve to increase trust in the overall ESG ecosystem and address the growing risks of greenwashing.

The report also addresses the risk of greenwashing through other recommendations that aim to support sustainability-related investor education initiatives and ensure that regulators have adequate supervisory and enforcement tools to monitor and assess and address compliance with requirements in this area. The bulk of our recommendations are addressed directly to the industry, and it is critical that asset managers now push forward to improve the quality of the service they provide to their clients.

We all need to recognise that trustworthy ESG ratings and correctly designed and marketed sustainability-related products are of the utmost essence for having a financial market that serve investor needs as well as the need for the whole society in the long run, globally. IOSCO recognises that we are at a turning point in this regard and that is why it has taken the initiative to support the establishment of the ISSB and to review market practices of both ESG data providers and asset managers.

How will these efforts fit together?

Our work to build the ecosystem for sustainable finance is far from done. We are very much aware of our unique position because most of our members set corporate reporting requirements in their jurisdictions. Therefore, we plan to thoroughly assess the ISSB proposals to ensure they meet the needs of investors before deciding whether IOSCO can endorse them. Our assessment will analyse how the ISSB global baseline for sustainability standards can be adopted within regulatory frameworks to promote consistent and comparable sustainability-related disclosures across jurisdictions. And we will also focus on strengthening the existing assurance framework as another means to increase investor's confidence in sustainability disclosures.

We will convene an international roundtable of key players in sustainability assurance to assess the needs, challenges, and opportunities for the enhancement of the current ecosystem and assurance framework.

Looking forward, we will also intensify our capacity building efforts to assist jurisdictions in implementing these new requirements and in supervising their application in the markets.



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For financial markets around the globe, it is important to understand that sustainability corporate disclosure, sustainability-related products and ESG-ratings are all interconnected, and they form key parts for building a financial market that serves the *long-term* needs of investors.

Conclusion

Climate change is global in nature, and this calls for global action. In essence, it is about bringing the future ESG risk and the sustainable finance opportunities into the current pricing of bonds and shares. That is the measure of success that we should all collectively hold ourselves to. We are well on our way towards adapting financial markets to be able to do that. But there is an immense amount of work still to do and we are committed in IOSCO to playing our part in that.

This will enable the financial sector to better allocate capital towards sustainable investments. We want to get the future risk and opportunities that come with the transition to a carbon net zero world, into the pricing of investments today. We are particularly pleased that markets can begin to see how the global baseline can be interoperable with jurisdiction specific requirements.

Fitting better corporate disclosure with our recommendations on sustainability-related product as recommendations versus credit ratings will form a good *global* base for a financial market that could get us to a net zero world.

Thank you I look forward to our discussion.