



7th EU-Asia Financial Services Dialogue

Closing keynote

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Many thanks for inviting me to this digital version of the yearly EU-Asia Afore & Asifma event.

I very much welcome the interesting debate in today's panels. The dialogue between European and Asian stakeholders and authorities has been very fruitful and has allowed for better understanding of our respective challenges and possible solutions.

In my closing remarks, I will focus on the important recent developments in sustainable finance seen through an international lens.

But first, let me underline the relevance of the themes discussed today in the light of the recovery from the COVID-19 pandemic.

The COVID-19 crisis demonstrates once again the opportunity cost of not having robust market-based finance. We saw this after the 2008 crisis: the US recovered fast, partly because of its highly developed capital markets. Large and open capital markets can mobilise the investment needed to facilitate the post-COVID recovery. Market-based finance will also be essential to financing the digital and sustainable transitions.

Turning to the international agenda on sustainable finance, I will touch on three interrelated matters:

- IOSCO's coordination role at international level,
- the initiatives taken by the IFRS Foundation and
- the relevance of audit and assurance when it comes to sustainability-related disclosure.

In so doing, I will draw on my experience as vice chair of IOSCO, which has worked extensively on these matters under Ashley Alder's leadership and assisted by a task force in which Erik Thedéen, the UK FCA, the Spanish CNMV and the IOSCO Secretariat play an important role.

I am also directly involved in these discussions, taking part in the international governance of accounting standard-setting as chair of the IFRS Monitoring Board, which oversees the IFRS Foundation.

As co-chair of the Monitoring Group, which oversees audit-related standard-setting to ensure it is done in the public interest, I also participate in the oversight of the auditing standard-setters.

IOSCO's role

IOSCO works in three key areas:

- sustainability disclosures at corporate level,
- the role of ESG data and ratings providers, where IOSCO is looking to the risks associated with the increasingly important role of ratings;
- asset managers' disclosures and investor protection issues such as greenwashing. Limiting greenwashing is an important challenge and of interest to all stakeholders. Any major case of greenwashing could jeopardize the credibility of sustainable finance efforts.

In my further remarks, I will focus on corporate level disclosures, as there is a growing momentum building, as attested to by various press statements and reports in recent weeks issued by IOSCO, the IFRS Foundation, the FSB and the European body EFRAG.

Placing sustainability at the heart of the financial system is increasingly important, not just for public authorities but also for investors and companies. Since this is a global challenge, the need for coordinated international action in this regard is widely shared. Greater international alignment on ESG-related

disclosures would increase global transparency. It would also reduce the due-diligence costs for global investors and the administrative costs of multinational companies.

This has been highlighted by many bodies such as the International Platform on Sustainable Finance (IPSF)¹, which has a working group on sustainability-related disclosure co-chaired by the EU Commission and the Japan FSA.

In this respect, one may also quote US Treasury Secretary Janet L. Yellen, who in her letter to the G20 on 25 February confirmed that “a truly collective and multilateral response is the only realistic solution to this global challenge” of climate change, including sustainable finance and transparency around climate-related financial risks.

It is also interesting to see that acting SEC Chair Allison Lee started a review of public companies’ climate risk disclosures in the US, which may lead to reviewing the SEC’s climate guidance.

This global consensus on enhancing disclosures spanning the EU, Asia and the US is a positive signal for the future.

Although in recent years, environment-related disclosure has improved, nonetheless, as reflected in IOSCO’s fact-finding work, investor demand for sustainability-related information is still not being properly met. For instance, companies often report sustainability-related information selectively, referencing different frameworks. This can lead to cherry-picking as regards reporting standards or ratings in order to make sustainability disclosures look as good as possible.

In this respect, IOSCO rightly pointed to the objective to examine pathways to mandatory disclosure beyond the voluntary frameworks that are still the norm in many jurisdictions. Such sustainability disclosures by corporates will help fund managers and other financial firms that themselves need to disclose how they’re addressing sustainability risks in their investments.

Most recently, the IOSCO Board issued a press release on February 24th referring to the urgent need to improve the consistency, comparability and reliability of sustainability reporting. The initial focus would be on climate change-related

¹ *Working towards convergence is essential to scale up sustainable finance globally as it will enhance global market transparency and help international investors identify investment opportunities that contribute truly to environmental objectives across the globe (IPSF, Annual report, October 2020).*

risks and opportunities, which would subsequently be broadened to other sustainability issues.

The IOSCO Board identified as priorities encouraging Globally Consistent Standards and Promoting Comparable Metrics and Narratives.²

IOSCO is committed to working with the IFRS Foundation Trustees and other stakeholders to advance these priorities – which cover both content and governance.

Concretely, IOSCO has a key role to play in working with the IFRS Foundation Trustees toward the establishment of a Sustainability Standards Board (SSB), to sit alongside the International Accounting Standards Board (IASB) under the existing IFRS Foundation governance structure, with a view to delivering an effective system architecture for setting sustainability disclosure standards³.

Given the role of securities regulators in establishing disclosure requirements by listed entities in capital markets, IOSCO will assess the final proposals by the Trustees of the IFRS Foundation.

IOSCO will have an essential role to play in evaluating the standards issued by the SSB for cross-border purposes governing 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 governance arrangements in question.

² IOSCO would like to see the 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.

³ This new architecture 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 of the development of an audit and assurance framework.

The IFRS Foundation roadmap

In its press release of last Monday 8 March, the IFRS Foundation confirmed that it remains on track to make a final determination about a new board in advance of the November 2021 United Nations COP26 conference

Building on a successful public consultation and following the direction set by IOSCO in its press release in February, the Trustees outlined the following key features of the new architecture put forward by the IFRS Foundation:

1) **Investor focus for enterprise value:** the new board would focus on information that is material to the decisions of investors, lenders and other creditors⁴.

2) **Sustainability scope, prioritising climate**

3) **Build on existing frameworks:** the new board would build upon the well-established work of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), as well as work by the alliance of leading standard-setters for sustainability reporting focused on enterprise value.

IOSCO is on the same page and encourages the SSB to leverage the content of existing sustainability-related reporting frameworks, because this can give the IFRS Foundation a running start in developing a common set of international standards.

4) **Building blocks approach:** by working with standard-setters from key jurisdictions, the new board's standards would provide a globally consistent and comparable sustainability-reporting baseline, while also providing flexibility for coordination on reporting requirements that capture wider sustainability impacts.

IOSCO encourages such a "building blocks" approach to establishing a global sustainability reporting system and limiting undue fragmentation as much as possible.

⁴ The Trustees recognise the importance for the public interest of reporting standards that address enterprise value, which captures expected value creation for investors in the short, medium and long terms and is interdependent with value creation for society and the environment.

As a possible coordination mechanism, IOSCO is exploring with the IFRS Foundation and other multilateral bodies the possibility of establishing a consultative committee under the IFRS Foundation that can advise the SSB on those sustainability topics that are material from an enterprise value creation perspective and advise on consistency in requirements on the broader sustainability topics.

In this respect, I believe there is coherence between the IFRS/IOSCO approach and the EU's thinking on international cooperation. In its recent report of 8 March to the Commission, the European Reporting Lab at EFRAG proposed that the EU promote and participate in global convergence efforts on a 'co-construction' basis. The ultimate goal, as expressed, is to foster coherence and consistency between EU and global sustainability reporting. It can be noted that the EU intends to pay particular attention to the decisions to be made by recognised global standard-setters in order to promote convergence. The EU intends to seek ways and means to build on and contribute to initiatives in a co-construction mode. Due to the specific relationship established between the EU and the IFRS Foundation following the 2002 IAS Regulation, the report suggests that dialogue be organised once the Foundation has set a possible course of action.

It would be good if in principle all regional initiatives were available to participate in global convergence efforts, so as to make convergence happen as quickly as possible.

Auditing

A final word about auditing in respect of sustainability reporting standards. Specific attention should indeed be paid to the level of assurance (reasonable or limited) that can be considered for the information to be prepared under new standards. The target should be for users to be able to place equal trust in financial and sustainability reporting. Ultimately, external assurance is likely to have an important role to play in upholding the quality of reporting, providing comfort to users that the standards have been met.

It is clear that high-quality international standards, based on robust processes interconnected with financial reporting standards, will provide a better foundation for any future assurance standards or methodologies, enhancing the market's trust in sustainability disclosures. It is also important that the standards are principles-based but also sufficiently specific to help their auditability and enforceability.

The IFAC noted in a recent statement that it believed “that the demand is urgent and real—from investors, policymakers and other stakeholders—for a sustainability reporting system that delivers consistent, comparable, reliable, and assurable information.”⁵

The IFRS Foundation has expertise in creating financial reporting standards to meet auditing challenges, and to help achieve this, it has developed working relationships with the International Auditing and Assurance Standards Board (IAASB) and the audit profession.

The position of the IFRS Foundation in the international landscape is therefore particularly favourable to facilitating interaction with the International Audit and Assurance Standards Board (IAASB) when audit standard-setters consider further integrating the sustainability aspect into auditing standards.

The strengthened International Audit Standard-Setting System will clearly help reinforce public trust in the assurance framework that is developed under the reformed system.

I am confident that the audit profession has a great deal of experience in serving the public interest and has significant expertise providing assurance on both qualitative and quantitative information. It would therefore be well positioned to provide appropriate assurance on reported sustainability information.

⁵ <https://www.ifac.org/news-events/2020-09/ifac-applauds-ifrs-consultation-sustainability-standards-board>