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Panel discussion: Corporate ESG Compliance and Pursuit of Sustainability

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Good afternoon and thank you for giving me the opportunity to say a few words about some of the current developments in the field of corporate sustainability reporting. There is indeed a lot of movement on this front, so I would just like to focus on some key issues.

The problem: greenwashing

Let me start by stating the obvious. The quality of sustainability disclosures needs to improve. This is essential in order to avoid greenwashing. Companies and institutions pretending to be greener than they are, are problematic from the perspective of investor protection.

In the current landscape, it is not easy for investors to correctly understand and assess companies' sustainability disclosures. There are various reasons for this:

- The existence of a broad variety of sustainability reporting frameworks. The so-called alphabet soup.

- The combination of various frameworks. Companies cherry picking by applying only the parts of a framework that best suit them.
- The use of company-specific metrics and the lack of transparency on the methodology used to gather the data.

This makes it difficult for investors to form an opinion on the actual sustainability-related risks and opportunities of the company. Companies can continue to make claims that are very difficult to verify and challenge by shareholders and other stakeholders.

The solution for investors and corporates: enhanced and standardised corporate sustainability disclosures

Investors increasingly want to know about the sustainability-related risks and opportunities of companies. This increasing market demand is fuelled in part by professional investors needing such information in order to fulfil their own disclosure requirements towards end-investors. In addition, they need to correctly take into account the sustainability preferences of their clients.

This chain of information can function correctly only if, at the starting point, investors have access to sustainability information that is consistent, comparable and comprehensive.

These characteristics are necessary in order to allow investors to take an informed decision based on the real sustainability risks and opportunities of a company.

Standardisation of disclosure requirements will help companies by providing them with clear rules of the road, instead of the current alphabet soup of standards that companies use.

Both issuers and investors are thus in need of enhanced and standardised sustainability-related information.

The means: implementing the global baseline

The global call for high-quality sustainability reporting has been clearly heard. This year, several regional and global standard setters are consulting on proposals that would allow issuers to disclose sustainability-related risks and opportunities more efficiently and effectively.

These proposals will meet both investor demand and provide issuers with clear obligations. High quality standards will significantly reduce the greenwashing noise.

Importantly, a comprehensive global baseline would help reduce the existing and further fragmentation of sustainability disclosure requirements. Widespread use of the baseline will improve the usability of the information for investors while at the same time reduce costs for preparers.

The new International Sustainability Standards Board (ISSB), founded within the IFRS Foundation, provides the best path to achieving such a baseline. It was at the COP 26 in November last year when world leaders met to address the urgent issue of climate change that the IFRS Foundation Trustees (Trustees) announced their plans to:

- establish an International Sustainability Standards Board (ISSB);
- consolidate the Climate Disclosure Standards Board and Value Reporting Foundation (VRF); which comprises the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB));
- publish general and climate disclosure prototypes as a precursor to ISSB proposals (exposure drafts); and
- establish the ISSB's primary locations in Frankfurt and Montreal, with work ongoing to establish its Asian footprint.

The ISSB has the additional advantage that it can make the link with the existing IFRS accounting standards developed by its sister body, the Internation Accounting Standards Board (IASB). Through its establishment under the IFRS Foundation, the well-known due process rules will also apply to sustainability standard setting.

At the same time, the three-tier governance structure with

(i) the ISSB as independent standard setter;

(ii) the IFRS Foundation's trustees assuring the governance, strategy and oversight;

(iii) the Monitoring Board assuring public accountability by providing the formal link between trustees and the public authorities

will be able to play its role to the full. As chair of the Monitoring Board, I can share with you that embedding the ISSB in the existing governance structure of the IFRS foundation, with all the guarantees that come with it, was a crucial issue.

The IASB has been successful in developing the IFRS accounting standards that are used by listed companies around the world when preparing their financial statements. The finalization of the proposed ISSB draft standards has the potential to mark an important milestone in the development of a global baseline of sustainability disclosure standards that jurisdictions could use.

Of course, implementation of the global baseline will require action by various stakeholders. Once the baseline is in place, its future success will depend on the combined action of:

- public authorities, by incorporating it into their jurisdictional reporting requirements in accordance with their own procedures; and
- market demand, with investors, issuers and other stakeholders encouraging the use of the IFRS Sustainability Disclosure Standards.

The global community of market regulators within IOSCO, can also play a role by endorsing the standards issued by the ISSB for use by its members. Such a potential endorsement would send a strong signal, just as it did with the accounting standards, to the more than 130 IOSCO member jurisdictions to further reflect on how to use the ISSB-standards domestically, in accordance with their own legal framework.

This would not prevent members who are willing and able to do so, to go faster or further if their own disclosure policies should call for that. The building-block approach used by the ISSB allows for such jurisdiction-specific disclosures.

Two domestic proposals are already underway and are of particular relevance. Both the SEC climate disclosure rule proposal and the EFRAG exposure drafts for sustainability reporting are currently open for public consultation. I would therefore like to encourage stakeholders to take part in these consultations as well, with a view to assessing, *amongst other things,* their interoperability with the global baseline.

As the ISSB is completing its set-up, I am confident that the ISSB baseline will be practical, flexible, proportionate and ultimately suitable for all types of markets and small and medium-sized enterprises.

Towards an audit and assurance of sustainability disclosures

But the work will not stop there. Things are also moving in relation to the audit and assurance of sustainability information. This is the logical evolution. To increase the confidence of users in the sustainability information, the assurance and audit of such information will be key.

We therefore welcome that relevant standard setters are taking the necessary steps. A robust audit and assurance framework for issuers' sustainability disclosures would be a crucial step in delivering capital markets with complete, consistent and high-quality sustainability-related disclosures for investors.

As co-chair of the Monitoring Group, which monitors the work of the Public Interest Oversight Board responsible for overseeing the standard-setting processes by the two standard-setting boards (International Auditing and Assurance Standards Board (IAASB) and International Ethics Standards Board of Accountants (IESBA)), I can assure you that due process and public accountability will be top of mind as the standard setting for the audit and assurance of sustainability information follows its course.

Conclusion

To conclude, what advice can I further give corporates in relation to the expected mandatory ESG corporate disclosure standards? Issuers should welcome global and other initiatives to enhance and standardise ESG-related disclosures by corporates. Preparers (and other stakeholders, including auditors) are also encouraged to take an active part in ongoing public consultations to shape future standards.

Moreover, it will be essential for corporates to prepare themselves, in a timely manner, for the future disclosure standards that will no longer be voluntary but binding. The challenges for corporates will be governance, controls, data collection and technology.

One example is the disclosures on scope 3 emissions. Scope 3 refers to all indirect GHG emissions (not included in scope 2 (purchased energy)) that occur in the value chain of the reporting company, including both upstream and downstream emissions. While scope 3 emissions are increasingly understood as an important risk indicator, it is also worth acknowledging that there are challenges involved in calculating scope 3 emissions.

Corporates face challenges in collecting relevant and sufficiently granular primary data and to manage the amount of data needed to calculate scope 3 emissions.

There are also methodological challenges involved in calculating scope 3 emissions. Among these are estimating emissions for suppliers that do not calculate their own emissions and defining an appropriate calculation method for each scope 3 category. Double counting may occur when emissions are aggregated across multiple organizations.

The example of calculating scope 3 emissions shows the need for corporates to prepare themselves in terms of appropriate personnel, resources, expertise, data management and quality processes. It is clear that additional technical expertise on sustainability matters will be needed within companies as well at audit and assurance firms.

As you can see, there is still a lot to discuss but I will leave it at this.

I thank you for your attention and look forward to your questions.

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