Ministero dell'Economia e delle Finanze

# INTERNATIONAL CONFERENCE ON CLIMATE CHANGE

BANCA D'ITALIA EUROSISTEMA

# ERKKI LIIKANEN'S POINTS FOR THE DISCUSSION

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Sustainability reporting is a very broad discipline, ranging from jurisdictional requirements for companies to report against specific public policy objectives up to investors' need for global comparability of sustainability-related financial disclosures.

These all are important. But the focus of IFRS is to meet the information needs of investors.

There is a path to global sustainability standards if we can create a global baseline of sustainability-related disclosures to facilitate comparability for investment decision making and work with jurisdictions to ensure compatibility between this global baseline and their own initiatives.

Climate change and sustainability matters are global challenges.

Mark Carney refers in his recent book to the tragedy of the horizon—where actions required today in the work against climate change have a payback well beyond the normal time horizon. He defines three pillars for the solution: 1) public policies, 2) company transition plans and 3) disclosures of climate related risks and opportunities.

Governments and jurisdictions are required to establish clear policy frameworks. Investors price investment capital based on how those policies will impact companies in the long-term. This in turn provides companies with an incentive to embrace sustainable business models.

The efficiency of this supply chain is dependent on high quality, globally comparable information on which investors can assess sustainability risks and make informed decisions. This is the role of investor-focused international standard-setters such as the IFRS Foundation. It is to enable the achievement of policy objectives determined by jurisdictions and international agreements by developing standards that bring consistency and transparency for the global capital markets.

The separation of roles and responsibilities is made clear in his book by Nobel Laureate Jean Tirole, who emphasises that economics is a science of means, not of aims. Common objectives of society largely rely on values. Governments determine the objectives. Economics and the market in turn can provide means to meet the objectives at the lowest possible cost. Tirole continues that the market is an instrument, not an aim itself. Similarly, disclosure standards do not set the policy objectives, but they can be a valuable instrument to support the delivery of those policy objectives.

When sustainability reporting can be asked to promote broad public policy objectives, the responsibility belongs to elected bodies and institutions.

An additional question has been raised—whether for a more limited task, to provide sustainability-related disclosure for investors, global standards would be needed. This question was often put in front of the IFRS Foundation, because its financial reporting standards are required for use by more than 140 countries.

When the IFRS Foundation and International Accounting Standards Board was founded with IOSCO's strong support 20 years ago, financial reporting and climate change did not meet. Now, in 2021, it has all changed. .

IFRS organized last year a consultation for the strategy revies, where the focus was on sustainability reporting. The first two questions were:

Is there demand for global standards? If so, should the IFRS Foundation play a role in developing such standards?

IFRS is ready to serve only if there is demand.

The responses showed a growing and urgent demand for a single set of global sustainability-related disclosure standards. A great number of commentators also wrote that the IFRS Foundation should play a role in developing these standards.

After the consultation, the IFRS Foundation reiterated that is does not play a role in determining sustainability reporting requirements required for broader public policy objectives.

At a jurisdictional level, public policy determines sustainability-related priorities, and they drive what information companies within each jurisdiction are required to report. (

Internationally, there are voluntary multi-stakeholder standards and investor-focused initiatives. The organisations behind these initiatives affirm that consolidation is required. They have welcomed proposals to establish a new International Sustainability Standards Board within the governance structure of the IFRS Foundation.

The shared ambition is to introduce a global baseline of standards for sustainability-related disclosures which are focused on meeting the information needs of investors globally when assessing enterprise value. Enterprise value is a key concept, designed to capture expected value creation for investors in the short, medium and long term, It is interdependent with value creation for society and the environment.

The new board would begin with climate. Its work would be expected to move with pace to consider other sustainability-related issues important for enterprise value. It will require first investor need and then support in global stakeholder consultation.

Our approach to global standards is market and demand led. The Foundation provides a setting where investors, regulators, companies, academics and standard-setters from around the world can work and problem-solve together.

According to the governance of the IFRS Foundation this work follows a transparent and inclusive due process that is overseen by the Trustees. They are in turn accountable to a Monitoring Board of public authorities. Its membership includes IOSCO, the European Commission, the US Securities and Exchange Commission and other authorities. Basel Committee and European Regional Committee of IOSCO are observers.

Whilst the Foundation is responsible for the production of IFRS Standards, individual jurisdictions retain the right to choose whether and how to incorporate the new standard into their own requirements.

These governance arrangements have evolved over time. The trustees are currently consulting on further amendments to the governance and constitutional arrangements to accommodate the new sustainability standards board. We welcome suggestions for further enhancements.

If the future is jurisdictional and international standards, the key question is how this can be reconciled.

The approach advocated by IOSCO and others is to establish a global baseline of sustainability-related disclosure standards to meet investor needs, which would be made available for use by jurisdictions as a base for public policy needs.

This approach would provide global comparability for investors, in a way that allows jurisdictions to combine the global standards with their own additional requirements.

To make this work will require political will, compromise and flexibility from all parties. Success is by no means certain, but if you want global sustainability-related disclosures for investors, this offers a path.