Implementing a global baseline for corporate climate disclosures
Keynote address at IFRS Foundation Conference 2022

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In a keynote address at the IFRS Foundation Conference 2022, Mr Ashley Alder related the key issues which the International Organization of Securities Commissions (IOSCO)[1] was considering as part of its in-depth technical evaluation of the International Sustainability Standards Board (ISSB) Exposure Drafts[2]. IOSCO placed considerable emphasis on the success of the ISSB project, and its evaluation was expected to inform IOSCO's potential endorsement of the final standards later in 2022 or early in 2023.

By endorsing the standards, IOSCO would signal to its large membership of market regulators that they should examine how they might adopt the standards in their own jurisdictions. The critical next step would be to consider the degree to which and how they can be adopted in practice, Mr Alder said.

Mr Alder then outlined the specific challenges to implementing the ISSB standards across vastly differing international settings. He expressed confidence that these challenges could be overcome to achieve for the ISSB standards what had been accomplished for the International Financial Reporting Standards (IFRS). IOSCO's endorsement of the international accounting standards in 2000 paved the way for its large membership of securities regulators to adopt them, or encourage others in their jurisdictions to adopt them, and that eventually led to the acceptance of IFRS in over 140 jurisdictions.

Mr Alder said he firmly believed the ISSB was the most credible mechanism for creating a baseline for climate disclosure standards, based on best practices and proven content, sourced from the most widely adopted frameworks and standards now in use. Converging the standard setters, as well as their standards, was the best option to integrate existing initiatives and stakeholder opinions on a single platform. That could enable a confusing, fragmented picture to be replaced by a properly aligned global approach.

The ISSB standards were of special relevance to securities regulators because they could provide vital information for the markets supervised by IOSCO members, Mr Alder emphasised. A consistent, systematic approach to the disclosure of climate risks was especially crucial to inform investors when making choices to allocate capital, to help align investment strategies with the global transition to net zero and to mitigate increasing greenwashing risks. In addition, the ISSB standards should help bridge the divide between

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[1] Mr Alder is the Chair of the Board of IOSCO.
[2] "ISSB delivers proposals that create comprehensive global baseline of sustainability disclosures", 31 March 2022: https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures.

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for proportionate and phased implementation. And because jurisdiction-level approaches were bound to differ, it needed to be acknowledged that a period of transition was inevitable.

Some jurisdictions had started to look at how to scale and phase implementation, Mr Alder said. However, too much flexibility would undermine the rationale of the entire project, which was based on notions of standardisation and convergence. IOSCO believed any scaling and phasing should be limited and should not dilute the ambition of the standards. That implies that there should be guidance on implementation to ensure jurisdictional approaches are sufficiently consistent, and the ISSB might consider issuing supplemental implementation guidance to support preparers and promote consistent disclosures: basically a “how to” manual.

Mr Alder also suggested identifying specific areas o ( )-4(ambi)4(t)4(t)-4(3WBT0 G[(i) eWBT/F3 11.04 Tf15)4

Current accounting principles and standards mainly reflect a company's near-term risks and opportunities, but in reality, the resulting financial statements are what investors mainly look to when making decisions about valuation and pricing. Moreover, financial statements which are founded mainly in tangible, internal historic data or, when forward-looking, in data which gives a sufficient level of certainty, can be hard to correlate with sustainability disclosures. For one thing, they usually do not contemplate the impact of climate change, absent a known climate-related event for which the implications can be confidently anticipated or gauged, Mr Alder noted. However, climate-related risks, for example extreme weather events, may have a significant financial impact when they materialise, despite their perceived low likelihood. He cited recent examples which included the first climate-related bankruptcy, PG&E, major forest fires in Australia, flooding in China and Germany and the current heatwave in Europe.

The ISSB standards were intended to broaden the perspectives of preparers and extend the horizon along which non-financial risks and opportunities could affect future earnings and the ability to continue generating value for investors, hence the focus on enterprise value as a core concept. Mr Alder suggested that the ISSB should work closely with the International Accounting Standards Board (IASB) to consider how preparers could be encouraged to develop the factors relevant to calculating enterprise value from a quantitative perspective, and to consider how that calculation might connect to traditional financial statements. Arguably, there should be greater consistency in the assumptions used in both sets of standards, and more thought is needed to consider how ISSB reporting may lead to new approaches to impairments, provisioning and expected credit losses.

The overall aspiration is to bridge the divide between conventional financial disclosures and ISSB sustainability disclosures centred on the concept of enterprise value, so that in combination they paint the full picture. For that reason, more creativity is needed to identify connections between the outcome of the ISSB standards when it comes to information about enterprise value and how this relates to aspects of the conventional financial statements when it comes to the hard numbers.

Mr Alder stressed that he would not like to see an outcome where sustainability disclosures sat in their own ghetto, where they may be considered useful only by those who cared to take them into account. If that happened, the risk is that when making judgements around pricing and value, a large constituency of investors and analysts would continue to place more reliance on traditional financial statements, rather than on sustainability disclosures.