FSB response to the IFRS Foundation's Consultation Paper on Sustainability Reporting

Dear IFRS Foundation Trustees,

The Financial Stability Board (FSB) welcomes the opportunity to comment on the IFRS Foundation’s Consultation Paper on Sustainability Reporting. The FSB is an international body established to coordinate the work of national financial authorities and international standard setting bodies (SSBs) in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies. Its membership consists of: authorities from jurisdictions responsible for maintaining financial stability, such as ministries of finance, central banks, and supervisory and regulatory authorities; international financial institutions; and international standard setting, regulatory, supervisory and central bank bodies.

Globally consistent and comparable disclosures by companies of their climate-related financial risks are increasingly important to market participants and financial authorities as a means to give financial markets the information they need to manage risks, and seize opportunities, stemming from climate change. In July 2020 the FSB’s stocktake on financial stability monitoring of climate risks concluded that work to quantify climate-related risks is hindered by a lack of consistent data on financial exposures to climate risks. The FSB and other international bodies are currently evaluating the availability of relevant data and any data gaps. Better disclosures by firms can help to fill those data gaps.

The FSB supports the recommended approach by the Trustees of the IFRS Foundation to initially focus on standards for climate-related financial disclosures, as an important initiative to promote globally consistent disclosures and avoiding fragmentation. The Foundation’s established credibility, strong track-record in developing robust and reliable reporting standards that are in the public interest and global reach will contribute to the wide adoption that is necessary. The Foundation’s initial focus on climate-related financial disclosures would be appropriate given the importance of global consistency in the actions that are already beginning to be taken, including actions by certain national and regional authorities to develop requirements and guidance in this area.

Such internationally agreed minimum standards for disclosures would, as usual, not preclude individual authorities from going further if they wish.

The FSB created the Task Force on Climate-related Financial Disclosures (TCFD) in 2015 to develop a set of voluntary, consistent disclosure recommendations for use by companies in providing decision-useful information to investors, lenders and insurance underwriters about
their climate-related financial risks. The TCFD published its eleven disclosure recommendations in 2017. Even with a voluntary-based framework, there has been remarkable growth in industry support and steady increase in the adoption of TCFD recommendations. Other international initiatives and standard-setters have developed recommendations or guidance based on the TCFD recommendations, and certain national and regional authorities developing requirements or guidance are using the TCFD recommendations as a basis. This momentum gained is welcomed by the FSB and demonstrates the current direction of travel.

The FSB strongly encourages the IFRS Foundation to build on the work of the TCFD, by using the TCFD recommendations as the basis for standards for climate-related financial disclosures. The TCFD recommendations set out a comprehensive framework that has been developed by, and is directly responsive to the needs of, users and preparers of financial filings across a range of financial and non-financial sectors around the world and has attracted widespread support from users and preparers. Future international standards that build on the TCFD recommendations can be complementary, while providing additional standardization and further details to promote greater consistency and comparability of disclosures. This would ensure that steps by the official sector and private sector are well aligned in promoting globally consistent disclosures and avoiding fragmentation.

The IFRS Foundation has a core objective of developing high-quality financial reporting standards. As the Foundation evaluates its next steps, the FSB encourages the Foundation to consider whether the IASB can strengthen its existing IFRS standards and forthcoming management commentary guidance for climate risk so that financially material information for investors and other market participants are sufficiently captured within financial reporting. If a new board is created, it would be important for the new board and the IASB to work in close cooperation given the interconnectedness between types of relevant information (e.g. financial versus non-financial) material to market participants.

In the period while international standards are being considered, the FSB will encourage the TCFD to continue to promote, and develop guidance for, the TCFD recommendations, in order to maintain momentum in the development of consistent, decision-useful disclosures.

To further promote global coordination, the FSB will explore with standard-setters and other international bodies ways to promote globally comparable, high-quality and auditable standards of disclosure based on the TCFD recommendations, and report to the G20 Finance Ministers and Central Bank Governors meeting in July 2021.

Note, the FSB issued a press release jointly with this comment letter which can be found here.

Yours sincerely,

Randal K. Quarles

cc: Hans Hoogervorst, Chair, IASB