United Nations Nations Unies
HEADQUARTERS NEW YORK, NY 10017

Office of the Special Envoy for Climate Action and Finance

17 November 2020

Dear IFRS Foundation Trustees,

When launching the COP 26 private finance agenda earlier this year, I stressed that comprehensive disclosure of climate financial risk is foundational to finance driving a successful transition to net zero. Financial market participants can only respond to climate-related financial risks and opportunities if they have access to consistent, comparable and decision-useful information across jurisdictions. I committed to working with others to develop pathways to making climate disclosure mandatory internationally.

The IFRS Foundation has an essential role to play in making this vision a reality, and I fully endorse your proposal for a new Sustainability Standards Board under the Foundation's remit. The Foundation, with its track record of robust, reliable and independent global standard-setting should play a pivotal role in delivering sustainability reporting standards that are in the public interest. The due process and independence of the International Accounting Standards Board (IASB) is well-established and held in high regard by endorsement bodies internationally. These features are essential for developing credible standards capable of being widely adopted and that ultimately can be subject to external assurance. I urge the Foundation to move quickly to implement the new Board and to consulting on standards.

In developing standards on climate, I strongly encourage the Foundation to use the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) as its starting point. Although the TCFD recommendations are voluntary, global supply and demand for its disclosures are increasing rapidly. As of September 2020, the number of supporters of the TCFD has grown to over 1,500 organizations, an 85% rise from 2019, representing a market capitalization of over $12.6 trillion.

There is also momentum towards convergence amongst the key voluntary sustainability standard-setters and frameworks – SASB, GRI, CDSB, IIRC and CDP - who are collaborating to construct a comprehensive global architecture of standards. They will shortly be publishing an illustrative exposure draft of a climate standard, built from the TCFD recommendations. I encourage the Foundation to consider how it can leverage the technical content from this initiative to contribute to and accelerate the development of its own standards.

The public sector, whose role in mitigating fragmentation across jurisdictions is critical, is now also stepping up. Beyond the Foundation's consultation key recent developments include:

- IOSCO launching a Sustainability Taskforce, which is looking at how IOSCO can help facilitate a scalable, global solution to sustainability reporting. IOSCO played a vital role in endorsing the content and developing the governance of global financial reporting standards 20 years ago. I encourage it to play a similar role with sustainability standard-setting today.

- The European Commission mandating EFRAG to launch technical preparatory work to develop recommendations for a common set of non-financial reporting standards for European companies. I urge EFRAG and the European Commission to pursue maximum possible alignment with global standard-setting stemming from the Foundation.
- Countries such as the UK and New Zealand strengthening domestic climate disclosure requirements. By setting TCFD disclosure requirements, countries can implement reporting obligations that align with, and prepare for, future international standards.

It now falls on the entire international community to build on these initiatives to enact global change. Robust standards that meet market demand must be developed quickly, through an initial 'building block' of sustainability standards grounded in enterprise value creation. This will provide the information flow needed for asset owners, asset managers and other market participants to manage material financial risks and opportunities. Standard-setting should also start with disclosure relating to climate, where market demand and public policy imperatives are most acute, before broadening out to cover wider sustainability factors. Supplemented with the expertise of a new SSB, the Foundation is in an excellent position to provide this base set of standards. It has the credibility and trust of global financial markets participants and deep expertise in delivering robust, reliable and transparent information that serve the public interest, with an established governance and standard-setting architecture for doing so.

Once this foundational layer is set, we can explore mechanisms for global convergence on wider impact reporting. A second global 'building block' of standards could therefore cover sustainability impacts, housed either inside the Foundation or another standard-setting body. However, we must recognise that some jurisdictions and organisations have diverging requirements and priorities. For instance, in the European Union, non-financial reporting is needed to derive specific information to allow companies, asset owners and asset managers to report against legally binding Taxonomy and Sustainable Financial Disclosure Regulations. Conversely, some jurisdictions might be unwilling to implement disclosure requirements relating to sustainability impacts at all. Where countries or regions are more ambitious, or have additional informational needs, they may need to top-up global standards with further domestic requirements. For the Foundation's part, it is right that it considers its role with respect to impact reporting, but I urge it to do so without distracting from the immediate priority of rapid development of robust, financially material climate standards.

Finally, the IFRS Foundation is also well-placed to consider what can be achieved through existing IFRS standards. The IASB, through the November 2019 guidance paper from Nick Anderson, has already highlighted areas where climate-related disclosures belong in financial statements. Disclosures about the material uncertainties relevant to the valuation of firms' assets and liabilities are an essential part of financial reporting. I encourage the Foundation to consider how IASB can strengthen its work in guiding preparers on the incorporation of sustainability issues within financial statements. I would also urge the Foundation to build on its upcoming management commentary guidance to pursue synergies between the agenda of IASB and that of any the new SSB.

To conclude, I want to express my whole-hearted admiration for the Foundation's ambitions for sustainability reporting. Your proposal to create a new SSB is the preeminent international pathway to making climate disclosure mandatory. My sole recommendation is that the Foundation must progress its work at pace to meet the soaring demand for consistent, comparable and high-quality sustainability information amongst market participants.

Yours sincerely,

Mark Carney