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 pre-
eminent 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