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The case for global corporate sustainability reporting standards

Investors, governments, civil society and citizens are demanding better information from companies about social and environmental performance and impacts, but the reliability and the quality of reporting is often lacking. Today there is significant global variation in the information on sustainability impacts that many stakeholders want corporates to disclose. However, in the case of financial markets – which by their nature are inherently international – there is an acute need for global comparability.

Consistent corporate disclosure of sustainability-related information relevant for enterprise value is foundational to investors managing short, medium and long-term sustainability risks. Voluntary sustainability metrics, frameworks and standards in this area have proliferated in recent years, most notably through the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. Today, the TCFD has become the pre-eminent framework for climate-related reporting on enterprise value.

Whilst private sector convergence around the TCFD is clear, voluntary action in the private sector has most likely progressed this cause as far as it can, to the point where public sector co-ordination is now needed to ensure consistent, comparable and reliable disclosure. With that in mind, last year the UK became the first country in the world to announce our intention to make TCFD aligned disclosures fully mandatory across the economy by 2025. Of course, the EU's ambition on sustainable finance has also been world-leading, marked by an unrelenting focus on aligning the economy with the Paris Agreement objectives. One foundational element of this is the on-going review of the Non-Financial Reporting Directive (NFRD) which is seeking to significantly strengthen corporate sustainability reporting in the EU.

Nevertheless, although jurisdictional sustainability disclosure regimes – being developed in the EU, UK and elsewhere – are an important lever for improving the quality and quantity of reporting, so too are common international standards. Such global baseline standards, built from the now established TCFD, are the only way to deliver truly consistent and comparable sustainability reporting across jurisdictions. Whilst a few months ago this might have seemed impossible, today's geopolitical context makes this not just feasible, but increasingly likely to happen at pace.

The IFRS Foundation are rapidly advancing the establishment of a Sustainability Standards Board (SSB) under their remit, in close collaboration with IOSCO, FSB and other international organisations, with preparatory work on the development of standards underway. Ahead of COP 26, the UK government is calling on countries to announce their intention to implement TCFD disclosure obligations across the economy, and to join us in supporting the proposed IFRS SSB, with a view to seeking to adopt future SSB standards when appropriate.

Crucially, standards from the IFRS SSB will be delivered through a building blocks approach, allowing individual jurisdictions and regions to supplement baseline international standards with additional domestic corporate disclosure requirements that capture wider sustainability impacts. This is important given the SSB will develop standards on information relevant to investors on enterprise value creation in the short, medium and long-term.

The UK fully supports this building blocks approach, it promotes international convergence on a global baseline, without constraining the ambition of individual jurisdictions or regions. This will be an important consideration for the EU, as it explores establishment of a European sustainability reporting standard-setting body. With that in mind, IOSCO and the IFRS Foundation are progressing the establishment of an expert multi-stakeholder committee to help the SSB co-ordinate with reporting requirements on wider sustainability impacts.

The EU's long-standing commitment to promoting international standards, and leadership and expertise on sustainability disclosure, places it in a unique position to both inform and integrate common baseline international reporting standards. At the same time, EU leadership – including through the International Platform on Sustainable Finance – is needed to promote cross-jurisdictional convergence on sustainability reporting matters that stretch beyond this baseline.