Addressing Greenwashing in Financial Services

Panelists:

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Moderator:

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Opening Remarks:

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Transcript:

Babak Abbaszadeh:
Hello everyone. I am Babak Abbaszadeh, CEO of Toronto Centre. Welcome to the executive panel on addressing greenwashing in financial services; a conversation we've been looking forward to having for a very long time. Since our establishment in 1998, we have trained more than 20,000 financial supervisors from 190 countries and territories to become change agents for building more stable and inclusive financial systems. I would like to thank our key sponsors: Global Affairs Canada, the Swedish SIDA, and the IMF. In 2016, we began incorporating climate related risks in our training programs because of the substantial implications to global financial stability. We are pleased to be a capacity building partner of the network for greening the financial system.

Greenwashing distorts information that investors might require in order to make informed investment decisions. For example, let's be honest, despite the popularity of ESG investing, how much do you and I really know about the climate impact of the companies in which we invest for our retirement or for our children's education?

Greenwashing erodes investor confidence in the market for sustainability related products, deprives developing countries of blended finance investments for sustainable infrastructure, and poses a threat to a fair and efficient financial system. There's much work underway to develop and enforce consistent international standards and practices across the industry. Standard setters and financial supervisors are key stakeholders and must continue to work together to avoid greenwashing when industry promotes sustainability related products. Today, our distinguished panelists will discuss how to address these challenges. They are our good friend, Martin Maloney, Secretary General of IOSCO, Michael Jantzi, member of the International Sustainability Standards Board, Carol Paradine, Chief Executive Officer of the Canadian Public Accountability Board, and Andres Vinelli, Chief Economist of the CFA Institute, and our moderator is Bill Coen, chair of the IFRS Advisory Council, and lucky for us, a Toronto Centre board member. I would like to thank Toronto Centre's team for working hard in organizing this webinar. You have received the bios of our speakers and moderator. Let's begin. Bill, over to you.

Bill Coen:
Thank you, Babak. Thank you for asking me to moderate this session. I come at green finance and greenwashing from different perspectives: my former role as Secretary General of the Basel Committee, this was a sort of unfinished business when I left Basel. We were working, were thinking about climate risk, but let's face it, the biggest and Babak, you pointed to this, one of the biggest problems right now is lack of data, lack of taxonomy. So, coming from it, different perspectives, it was my regulatory background, but also since I've semi-retired, I'm on the board of a global systemically important bank, and I know firsthand the importance of disclosure reporting from the bank's perspective, I do work for a Japanese global systemically important bank as well, and similarly, this occupies quite a bit of time in the boardroom. Babak, as you mentioned, I also chair the advisory council for the IFRS foundation.

It's almost startling how quickly progress has been made in establishing the International Sustainability Standards Board, but actually producing work. That's a good segue into, Michael, if I could start with you. The progress of the ISSB really has been extraordinary. I know firsthand from a regulator's perspective how difficult it is to move things along in an expeditious way, but at the same time, you know, want to produce the highest quality standard as possible. So, the ISSB is a new organization - an infant organization. Let me ask you about the recent work of the ISSB. So, you produced two exposure drafts on general sustainability and climate related disclosures. Let me ask you this, how exactly will those two standards help address greenwashing in financial services?

Michael Jantzi:
Well, thank you Bill, and thank you for those kind comments. It's the staff that deserves the credit for the pace that we've been on. But I mean maybe obviously with the ISSB, the International Sustainability Standards Board is focused on sustainability disclosures for companies. And certainly, there are greenwashing charges or concerns out there in regards to company disclosure, but the topic is broader than that, and I know that we're going to get into some of those things a little bit later on through the panel.

But, I mean, maybe the sort of flippant thing to say is that we're focused on transparency and the greater transparency there is, I think the less opportunity there is for stakeholders to level charges of greenwashing. Let me get into something you said a little bit because you referenced something that's absolutely true. The ISSB is a new organization, but I think it's really important for the attendees to recognize we are part of the IFRS foundation family.

And that's been really important, not only in the pace, but the quality of what we've been able to achieve thus far, because obviously, we are now within a foundation that has such strong governance, the due process oversight we've been able to leverage, and obviously the relationships that the IFRS Foundation brings to the capital markets are really very powerful. Obviously, on the reporting on the financial reporting side, IFRSS standards are used in more than 140 countries. So, that's important because the IFRS Foundation has tremendous credibility and trust across the capital markets and we're able to leverage that. I think, obviously, from my perspective, one of the catalysts for greenwashing is this idea of mistrust. The stakeholders simply don't trust certain actors in the capital markets to do what it is they would like them to do.

So, ISSB being able to leverage that new but immediate credibility in that trust in the market has been really powerful for us. So, I think that's one of the things that's allowed us or will allow us to address some of the greenwashing concerns. I think the other aspect of this is that I think greenwashing, from my perspective, is often a result of a mismatch in expectations. On the one hand, you've got stakeholders that expect something of companies in this case, and the companies are simply not delivering up to those expectations. And the challenges for companies: they have a range of stakeholders who have a range of demands or expectations. So, we're not going to be able to address that entire spectrum at ISSB because our focus is creating high quality, globally aligned standards that are focused on our primary user base: investors, lenders, and other creditors. So that single materiality perspective.

But by bringing globally aligned, high quality comparable standards, we really do believe that we're going to be able to address that gap between the expectations of the market has of us and what the company's going to deliver. By narrowing that gap, again, I think we're addressing greenwashing, and we can get more into this to the extent people would like, but we are very focused on establishing that global baseline so that jurisdictions can take the ISSB standards, they can build around it in a way that they need to for their jurisdictions. But, that global baseline of comparable high quality disclosure standards is really key for us. And again, I think it addresses some of the challenges around greenwashing. We have a great deal of focus on interoperability here. I think one of the problems too, that's led to some of the charges of greenwashing, is that we've had this alphabet soup of largely voluntary disclosures out there, and that is confusing for the market.

Companies are disclosing to different standards and different ways and different formats, and when there's confusion and complexity and costs in the market, that leads itself to confusion; It leads to charges of greenwashing. So, the fact that we're bringing this alignment and working very hard to do that, I think is important. Last but not least, I would argue that today, sustainability disclosure is not a nice to have anymore for capital markets; this is a need to have. Investors, lenders, and other creditors need sustainability data to inform their decisions, to position them for success over the long term.

So, the old style of voluntary disclosures no longer fit for purpose. And so, I think maybe the greatest contribution that we can make with our partners is the fact that we are creating standards that will be auditable, assurable, and our expectation is they will become regulated and mandated. So, the fact that we will be putting standards in the market that we would expect to be regulated and mandated, I think, is taking it to the next level. Maybe more than anything else, we hope that that's going to really begin to address in a significant way the charges of greenwashing that have been leveled to a certain extent in regard to the corporate disclosure on sustainability risks and opportunities.

Bill Coen:
Thank you, Michael. You mentioned capital markets, the need to do this on a global basis, and the mismatch of expectations. So, this naturally leads me to the work of IOSCO. Martin, when I was with the Basel committee, I interacted regularly with IOSCO and the IAIS. I know firsthand how difficult it is for an organization like the Basel Committee, which is smaller in terms of membership, a lot smaller than IOSCO, and I fully understand the difficulty it is to get something done on a global basis. As Michael explained and put very nicely, this is a global issue that needs it; it absolutely has to get done on a global basis. Can you say a few words about IOSCO? I've been impressed by the work of IOSCO in supporting the transition to a more sustainable economy in the capital markets. Can you elaborate on some of these efforts?

Martin Moloney:
Yes, thank you for the question. I wanted to pick up very much in a way where Michael left off because if you look at what he's saying as just correct, you can see that from our point of view, working very closely with the IFRS foundation was a key part of trying to stimulate and support progress on the reporting standards. And we're also engaged very actively with IESBA and the IAASB to try to help put one of the other blocks in place so that you can get proper auditing and assurance to high ethical standards. And none of that is trivial or easy, and all of it is going to take time. When you were at the Basel Committee, you knew well the long lead in time for regulatory developments. They can take years. We're doing this one really fast, but it's still taking years. And that leaves us all with this greenwashing problem in the interim.

So we've tried to adopt a long-term and a short-term approach: long-term support, the sorting out of reporting standards as we've just been discussing, but we had to come up with something we could do that would be helpful to try to get standards up in the marketplace and get away from greenwashing even when we don't have the good proper information and the well audited information that we need. And we've done this by firstly, drawing attention to the problem and to the details of the problem, and we've published a couple of reports which set out in detail how asset managers can fall into greenwashing and how ESG rating agencies can fall into greenwashing. And that's really critical to deal with something I'll mention in a moment, which is I think the industry's misunderstanding sometimes of what it's doing when it's talking to itself about greenwashing, and I'll come back to that if I have time in a second.

But after the publication of those two reports, we then thought, how are we going to get the industry to move forward and do better in relation to greenwashing it's been doing? And we came up with the idea, which is a bit of an innovation for us, of a call-to-action to industry representative bodies, to self-regulatory organizations, and to standard centers in the private sector to generally stimulate debate and reflection within the industry on why they were falling into this trap and why they were falling into greenwashing when very often it wasn't. We're following that up with work this year with our industry committee, the AMCC, where we're doing work with them to promote awareness among their members. But there's another string to this bow as well, which we're going to be drawing global attention to a bit later in the year, which is an awful lot of the regulators around the world have started inspections, programs, and enforcement programs to actually start challenging this at the front end, and we're strongly supportive of that.

And the point I wanted to say about industry was brought out well, I think, in a panel I was on recently where an industry member objected to the use of the term greenwashing for a lot of what's happening, saying, "this is not intentional and it's not all our faults, so it's not fair to call it greenwashing." And I think that's not really right, because if you look at this from the investor's point of view, and I think Michael already alluded to this: there is a mismatch of expectations and there is a problem of trust that has emerged, which is why we got involved in the first place because this is not a criminal court of law. It's not about proving intentionality, it's about observing low quality output, and we've seen low quality output and put in terms of ratings, and we've seen low quality output in terms of the selection and design of portfolios for investors.

And how that happens within the firm is somewhat secondary. Interesting of course, but somewhat secondary to the fundamental problem investors face in the market if the quality of the materials and services are getting is low. And for me, that's what I mean about greenwashing, and very often the debate we have to have with industry is about getting them to accept responsibility for that large area of activity, which is in between, on the one hand, intentional deceit, and the other hand, getting it right. But, in between those two, you've got a large spectrum of possible activities where you end up getting it wrong for a wide variety of reasons. And in my book, that's all greenwashing.

Bill Coen:
Thanks Martin. Carol, I'm going to move to you next because we heard from Michael, and Martin has echoed topics like assurance and auditability. Carol, as the head of the Canadian Public Accountability Board, you're responsible for overseeing public accounting firms that audit the Canadian reporting issuers. Tell us a bit about CPAB's role on ESG and fraud and how do you see greenwashing in that regard?

Carol Paradine:
Yes, thank you. Fascinating discussion so far, and I think it links in a lot between the discussion and fraud that we've had for a number of years. By way of background, the Canadian Public Accountability Board had its 20th anniversary this Saturday. We were established as a Canadian response to significant US business and audit failures, most notably Enron and WorldCom, and there was a desire to prevent such a situation in Canada and create an audit oversight body that is independent of the accounting profession. So, we're recognizing Canadian securities regulation and our regulatory mandate currently encompasses oversight of audited financial statements of Canadian publicly traded companies. So, related to this topic, we've published two thematic reviews on fraud recently, and also one which is a climate-thematic review. What we haven't done yet is a thematic review that involves both fraud and climate.

So, as we think about our current role as it is related to ESG, more broadly, three areas of involvement that I wanted to highlight: we want to walk, lockstep, and consider assurance as the various disclosure, the various accounting implications, and standards are being developed. I long with Michael, were part of the Canadian Independent Review Committee on Canadian standard setting, and I've engaged with a large number of audit committee chairs on discussions. Some of them are quite energetic, of course. For example, the debate that you get in Alberta, Canada, which is the center of our energy sector. Aside from some of those sometimes somewhat political debates about the impact of these disclosures of the discussion, the audit committee chairs have had discussions very much around processes and controls, attestation - which committee within an audit within a board takes responsibility for these types of disclosures, and definitely around greenwashing. One audit committee chair in Alberta said to me last week, "our competitors could make up anything." So, if you think about processes and controls, a significant amount of the information which is currently disclosed is sourced from non-financial systems and other areas which may not be subject to a robust or a sophisticated set of internal controls.

Reporting assuers also need to be thinking about, in scenario of discussion, when they involve specialists and to ensure that the information that they disclose is accurate and not misleading. So, that question that both of the other speakers already touched on is greenwashing fraud. I'm sure there's a number of perspectives out there, and I by the way tend to be a very decisive person, but my reaction tends to range from "yes" to "maybe", and "it depends", and part of this lack of a clear answer is that fraud is typically elucidated within a legal framework. When greenwashing is intentional manipulation of information to change the behaviors of investors, consumers, or others that use or rely on that information, in my view, that fits the standard definition of a fraud. However, there are a lot of leveling of charges of greenwashing that may not really be fraud. So, is it painting too rosy a picture? Is that fraud or highlighting the positive but not the negative? And as public appetite for sustainability reporting increases, and this has more prominence, there's increased pressures of course on companies to disclose the information in a fair and transparent manner. In cases where firms are overs intentionally overstating their green initiatives or their commitments to a net zero plan or deceiving investors, then to me, greenwashing would definitely be considered to be fraud. However, there's also risk of companies knowingly disclosing inaccurate information. So, that's unintentional because of the systems and processes around gathering that information or that the information is more aspirational in nature, which could be quite high when you're looking at this new sort of emerging disclosures in this area. Of course, there's significant demand by investors and others. So, to me, this highlights why we need clear, consistent standards, why we need verification, and why we need regulation. Thank you.

Bill Coen:
Thank you, Carol. Last but not least, Andres. So, we've heard so far, the difficulties with the newness of everything. There are no global standards; there will be soon. There's not consistent data, there's not high-quality data. Carol just mentioned the importance of processes and control. So, all of this is new for preparers, for risk managers, for regulators, but this plays perfectly into the remit of the CFA, and providing an education for financial professionals. So, I'd like to hear from you, Andres. How does the CFA institute address this challenge of greenwashing? I know the CFA institute recently released its ESG disclosure standards. How could those standards help address the greenwashing issue in financial services?

Andres Vinelli:

Well, bonjour, bon día. I'm delighted to be here this morning. We at CFA Institute are doing several things in this area: as you mentioned, Bill, we have the voluntary disclosure standards, but we also do quite a bit of training and research and policy engagement. Now, the purpose of the global ESG disclosure standards for investment products is to facilitate fair representation in full disclosure of investment products, consideration of ESG issues in general, and climate in particular. Now, when those products are fairly represented and fully disclosed, investors, consultants, advisors, and distributors can better understand, evaluate, and compare investment products. So, the potential for green washing greatly diminishes. And we offer a number of tools and resources that anyone can find online to streamline implementation. But a crucial aspect of this conversation, I think, is the issue of human capital that truly understands and can be helpful in this matter.

So, what we do is we also train practitioners. We have an ESG certificate, a course on climate investing, and the newly revamped CFA curriculum gets more and more into this topic. So, over time we think that we are raising the bar, but as Martin said, many of these things take a lot of time. One other thing that we're doing, Bill, is to do actual research on greenwashing, and I'm hoping that by the end of May, probably by early June, we will have some research out where we went out and analyzed some investment products out there available to the regular public, and we found that, for instance, in North America, about 50% of products have some type of greenwashing going on. And a lot of this, as Carol rightly pointed out, is not necessarily fraud, but I like the framing that Martin gave, which was low quality output regardless of intention, perhaps. But there's a lot of that going out there. So, we want to be able to point out to those instances, but also we want to have a contributing role. So, we're working with PRI and GSIA to harmonize some of the ESG terminology. Cause part of it is the alphabet soup problem, not only of organizations, but words that we use to describe different approaches to sustainable investment. And finally, I have to say, public policy has a great role here. So, we want to make sure that voluntary activities do not, in any way, crowd out the important role for policymakers and for regulation in this area. So, we are working actively with policymakers and regulators through a diversity of processes just to push the envelope in this area, which is very, very important for investors. Thank you.

Bill Coen:

Thanks, Andres. This is certainly one of those areas that people talk about - private public initiatives, and this is certainly one of those areas that does require input from the regulators; certainly, there's a private sector effort that needs to be made here. That statistic you quoted, the 50% greenwashing; at first, it was somewhat startling, but then I think of some of the organizations with which I'm involved. Of all the financial services firms I speak with, both on the banking side and the insurance side, I have not yet come across one firm that has said to me, "You know what? We think we do the best when it comes to sustainability reporting and green finance." I haven't come across a firm that says, "We are the leaders." Everyone asks me, "What are the other guys doing? Are we behind? Where do we need to catch up?"

So, there really is a massive effort required in both the public sector side and private side. And, Michael, if I can turn back to you, it's in this vein with my work of the IRS Advisory Council, our agenda, the agenda for the group I chair, that's been dominated by the work of the ISSB and progress has been, as I mentioned before, progress has been remarkable in the very short time that the ISSB has been established. You're about to, well, you've announced recently that you, you'll be finalizing the corporate sustainability reporting standards. How directly, Michael, how do those reporting standards directly contribute to the conversation that we've had so far today?

Michael Jantzi:
Well, maybe I'll just highlight three things quickly; we don't do this alone, I mean, the ISSB isn't on an island, so we've heard a lot about the connectivity and interrelationships and it's how they work together to address these issues. But connectivity is an important concept, more than a concept, it's a practice; it informs a lot of the conversations around the ISSB, and I think we're uniquely positioned to connect sustainability disclosures with financial disclosures. I think we have the opportunity to do that for the first time. Again, that brings a rigor, it brings a disciplined approach to reporting that we haven't had before. But I want to use connectivity in a slightly different way here too, and I do think that the standards will have some knock on effects, positive knock on effects, and I just want to point to something you said, Martin, because I should caveat this by saying, in a former life, I was the founder and CEO of one of the leading global ESG ratings firms, and in that position, I was grateful for the work that IOSCO did in regards to highlighting some of the challenges that ESG ratings firms have and some of the challenges in the market.

I believe that the disclosure standards on the ISSB S1 and S2 is going to help alleviate some of those challenges on the ESG rating side, because to be quite honest, the analogy I would use is that ESG rating firms have done say a good job in getting the information that is out there. But I mean the analogy would be financial analysts, sell-side buy-side analysts, trying to do their job without IFRS reporting standards. That would be the analogy, so having the sustainability standards from ISSB S1 and S2, I think is going to help address greenwashing across the capital markets spectrum.

But the other thing is, and I want to pick up on, again, this is IOSCO Toronto Centre, it's the CFA; I think one of the biggest contributions that ISSB can make to this area alongside partners is we're not just bringing standards out, we're committed to capacity building and education, which again, all of your organizations are adept at and so involved at. In my experience, stakeholders that criticize something, whether it's informed, more informed or less informed, often feel like they're on the outside. I think if you can begin to educate, if you can begin to empower, if you bring your stakeholders along on the journey, I think that's really an important element in bringing a practical lens and standpoint to these conversations. Because, as all of us have mentioned, this is not something that's going to happen overnight, we're not going to address these challenges overnight; it's a long-term process and it's too complex, it's too challenging for any one organization. So, working together, bringing people inside the tent to the extent possible, to be part of the solution, I think is a really critical element, again, of addressing the concerns we're talking about here today.

Bill Coen:
Well put, Michael, I could not agree more. The training needs, the capacity building requirements, that's one of the reasons why I feel so strongly about the work of the Toronto Centre; the work that they do in that regard, and something like greenwashing and sustainability, there's just such a knowledge gap. Martin, let me turn to you. Something that Michael mentioned: so, we're about to see, and I think Michael, correct me if I'm wrong, in another couple of months, the publication of the finalized standards. How is this going from an IOSCO perspective? How is it going to help member organizations, or maybe what are some of the challenges that still exist, or are there other things that IOSCO is doing in this space to help keep a check on greenwashing?

Martin Moloney:
Yeah, I often say to people, sometimes I get asked, "What would be the sign of success in this work that we're doing in order to get new corporate reporting standards?" And the answer I give is, the real sign of success would be the development of a specialized sector feeding off our work, the ISSB standards, and the related assurance certificates that will be out there. It's exactly to Michael's point: you need analysts in the market who look at this stuff. You need companies to be able to outsource data collection for their own disclosures. You need costs there to be capable of being controlled. Once you start listing out all the different things you need for this to work, and the different activities that are needed for this to work well, by analogy with financial information, you very quickly see that we're facing a massive skills gap shortage in this whole area. It's intense. It's in the auditing firms, it's in the accounting firms, it's in the regulators, it's in the asset managers, it's in the rating agencies, it's everywhere.

You then look at the training programs that are available and the career paths that are available: they're getting better, but they're not great. It's a tough thing to develop, and that really will be the key to success. So, we have picked on one little aspect of that, but what we think is a crucial aspect of that, which is to work really closely with our members who, are themselves, key advisors to governments in all the different jurisdictions, as to what they should do in the face of the ISSB standards. So, what we've done is, we've run the already run instance of this last September. We're running a program again in May in Kuala Lumpur, which is a program for our members to sort of ask the key questions about what does it mean to bring in ISSB style reporting standards?

Are you going to do it compulsory, voluntary, some sort of transition structures? Who is the regulator going to be? If it's only going to be listed companies, maybe you want to use the stock exchange as the regulator, if it's going to be mandatory, and economy-wide, obviously it's more likely to be the regulator who's our member and so on. You get questions like that, and there's also a lot of questions specific to emerging markets that they've got to think about, which is they've particularly got to think about cross-border capital connection issues, which are really crucial for a lot of emerging markets, and understanding the answer to, what I think is one of the most important questions is, "Where do you want to situate yourself?" Do you want first-mover advantage? Do you want to wait until it's become a mature model that you can then just adopt because you're afraid you don't have the resources domestically to build it yourself? Or do you want to position yourself somewhere in between? And that often, for emerging markets, relates to their overall framework of ambition in relation to building capital markets. And we plug our program relating to the ISSB standards into that wider program of work we do with them to help them to think about how they want to build their capital markets and what their level of ambition is.

Bill Coen:
Thanks, Martin, this is a critical point. So, it's one thing to develop a global standard, but it's quite another to implement it, adopt it at the national level, and then even at the national level, there are special considerations for, as you mentioned, emerging markets, but there are others. Again, this points to the knowledge gap and the difficulty of getting these standards in place and in practice. By the way, I'm conscious of time; we've got a good-sized participation in today's webinar, and I'd like to leave a few minutes at the end to hear some questions from our guests. But, before I do, Carol, I do have another question for you. On this theme of this information gap, this knowledge gap, I know CPAB has recently conducted a climate thematic review. Can you share the results of that review? What was that about? What were some of the highlights?

Carol Paradine:
Yeah, absolutely. So, our review was focused on understanding how financial statement auditors are evaluating the impact of climate related risks in their financial statement audits. So, we looked at 66 audit files that were already part of our selection for inspection and our regular work. And it was across a variety of industries and including that was interviews with the big four Canadian audit firms and for those within the firms that were responsible for the delivery of training and guidance in this area. Really, what we wanted to do was get a sense of the current state of climate matters; how it was assessed in regular financial statement audits now using existing standards. So, for example, where that would be of particular relevance or things like asset impairments, how that's impacted by climate change. Asset retirement obligations always have had an implication in it. Risk disclosures going, concern assessments.

So, our observation, very high level from the schematic review, was each of the four largest firms in Canada had specific guidance and training material to support the auditors in considering the impact of climate-related risk. The quality of the resources did vary across the firms. There was a range of guidance of training available, but in many cases, the firms, and this was 2022, were in early stages of developing their approach. In most of the files that we inspected; we noted no change to the audit approach to respond to the climate related risks. So, they had guidance and some level of training. It wasn't showing up yet in the audit files in most of the files. And when they were being considered, when the climate related risks were being considered by auditors as part of their assessment, the extent, and the quality of the work and how that was brought into the audit, were actually varied significantly. So, what we've done with this is, we've met with the firms, we've provided them individualized feedback, and encouraging them to proactively prepare their teams to consider and address climate related risks in the audits and increase their level of monitoring of how the work is being performed in this area.

Bill Coen:
Interesting. Carol, thank you. There are so many players in this space, and as a former regulator, sometimes people are surprised to hear me say that a private sector solution is often the best solution. Not in this case though. I do think that this is a case where we do have to have maybe some momentum that's started by the official sector regulators, standard setters, auditors, well, audit overseers, shall I say, Andres, before I open it up to our audience, I do have a final question for you. So, on this panel, you've got the unique perspective of Michael, Martin, and Carol, who are, I guess you could say you're that group of the official sector. From your perspective, what would you ask of the official sector; policymakers, standard setters, regulators, supervisory authorities, what's needed from the official sector to address greenwashing practices in the financial sector?

Andres Vinelli:
Well, Bill, first I want to say that I feel that we're at the beginning of a virtual cycle and that we are on the right track in the sense that we are actually addressing these emerging risks and opportunities. The question is then how do we keep the momentum? And I feel there's two things that we can do, and we're collectively, I think, on the process, but we need to really focus. The first one is increasing the rigor of what we're doing. And the second one, to be more general in both the language that we use, rigor and generality, also in the standards, and hopefully in a way that is harmonized around the world, because this is a global problem. We all think that our jurisdictions are somehow special in this issue. I don't think they are most times. So, what does it mean to be more rigorous in this and more general, exactly?

So, I would say in two ways. On the assurer side, of course, we want clear disclosures. So, three things, right? Science based, harmonized around the world, and with assurance building, I feel strongly about this; I'm a former assurance regulator, and if A CEO is out there talking a good game, I want to make sure, as Carol was mentioning, that the right answers are impaired if they have to be impaired in order to have some correspondence between wards, disclosures, and financial disclosures in particular. Are the amortization schedules adjusting to that reality that that management is actively talking about? Those kinds of questions. So, how about generality? I would say generality not only in terms of comparing standards across countries and continents, I guess these days, but also including across different asset classes.

And this is not just equities and fixed income, but also private investments, I mean we live in a world where a lot of money is being allocated to private assets. We want to make sure that private equity, venture capital, private credit, hedge funds, they're also engaged in this process, so there's a level playing field for all asset classes. So, I think that we need to elevate that conversation. Now, on the financial intermediaries section we care so much about, I think that there's a need to be very clear about how firms incorporate risks and opportunities in the investment process. We have the mandate, basically, if they have a mandate in this area, they have to be absolutely clear on how that translates into their investment process. This is something that is not always happening out there. And there has to be absolute transparency in reporting, not only of financial returns and our standards, talk all about that, but also are there other relevant measures that are non-pecuniary, right? That are about outcomes? We want enhanced disclosure in that area so investors can allocate capital as they please.

All of this will help because the industry will build better databases, the auditors will be able to press for better disclosures, analysts will sharpen the questions about greenwashing in their conference calls, science will improve. Then the regulators, for instance, banking regulators, will have better data to put into their models so they can assess whether this is a material risk or not, or their systemic implications. At the end of the day, this will help shrink the gap between hype and actual reality out there.

Bill Coen:
Excellent. Andres, thank you very much. Okay. My fellow panelists, we've got a bunch of really good questions. Let me pick some of these, and I'm afraid with 15 minutes left, we may not be able to answer all of them, but we will endeavor to answer them in writing the ones that we can't get to. The first one for me is a really important one, and this is, it's the conundrum of a standard setting body. I want to, particularly on an important topic like greenwashing and sustainability, want to develop a standard as quickly as possible, yet at the same time, you know, have to do it in a high-quality way and in a transparent, inclusive way, capture all the views of the very many stakeholders. Michael, I'm going to direct this question to you, but I invite Martin, Carolyn, Andres to weigh in, if they wish. This is a question about coordination. Arvind Baghel writes "The Sustainability Accounting Standards Board, SASB had a head start on sustainability standards. How has the ISSB coordinated its work with SASB so that there's congruence with international and US standards?". I mean, at the end of the day, once the standards are published or finalized, the goal is as wide adoption as possible, and so there's got to be buy-in from all the different stakeholders. Michael, what do you think about the coordination with SASB?

Michael Jantzi:
Well, I think it's a great thing, and in fact, for the ISSB, part of the reason we were able to go at a good pace is because we didn't start from scratch. We were leveraging the good work of other standards and so on, that had been out there for a long time, had a great deal of credibility including SASB. So, in fact, and I say this as a proud former board director of SASB, which then became the Valley Reporting Foundation, SASB and the industry, the SASB standards are now part of the IFRS foundation family. So, the IFRS foundation or the ISSB acquired the Value reporting foundation, which was not only the SASB standards, but the integrated reporting and integrated thinking side as well, also acquired the Climate Disclosure Standards Board. So, this was part of the effort on behalf of the foundation in the ISSB, not to contribute to more alphabet soup or this greater hodgepodge, which was the beginning of the alignment. So, the task force on climate related financial disclosure is a central component of our standards, both S2, which is climate first, but not climate only. It's also an integral part of S1, which is general sustainability disclosures. But SASB is a central component of our disclosures because industry-based disclosure is so critical for our primary user base. Investors, creditors, and lenders really want that industry-specific understanding on the disclosure side. So couldn't agree with you more, and SASB is a great example because it's part of the family.

Bill Coen:
Thank you, Michael. Let me thank all of the participants in this webinar for some excellent questions. I see one that that's a particular interest to me, and it's the question of what's the board's role in the oversight of greenwashing, short and longer term? Let me ask, let me open it to the panelists. We really haven't touched on so much the role of the board, which as we're seeing with a lot of the financial system stress in the last month or so with a couple bank failures, the role of the board is critical and just more examples of why it's so important to have an engaged effective board. Would anyone like to weigh in on the role of the board when it comes to greenwashing?

Martin Moloney:
I might say a couple of things, maybe. I think it depends a bit on a board of what, so if it's the board of a fund, I would be hoping that the board would take, given everything that's been written about this topic, they'd be taking a direct interest in the marketing materials that is being pushed around there, promotion of them as a possible investment vehicle. They would understand it in some significant detail, and they would either themselves or through getting some third party to help them, get somebody to do a bit of challenge on it and get them to a point where they think, yeah, that's okay. We're not being misrepresented, we're not being represented of having achieved something which nobody in the market is achieving, but we're pushing our product in an open and transparent way. And there's nothing wrong with pushing your products, it's only wrong if you start misrepresenting what it is you've done in terms of design of that product.

When you look from the point of view of an asset manager, particularly a large asset manager, I think if you ask yourselves why this greenwashing has occurred when it has not been intentional fraud, let's say, you come back to culture again and again as the main issue. In many asset management firms, there are different parts of the organization which have different culture weight, and boards get to assign the weight to the different elements of their organization. You're inevitably going to have a bit of a tug of war within an organization when they face investor demand as they have faced in the recent past. In the end, it's for the board to intrude sufficiently that it sends the right cultural messages throughout that asset management firm. The same sort of argument would apply in relation to some of the larger rating agencies as well to in order to, so the right people, if I can say it this way, win those culture wars internally in order to get that organization into a healthy position rather than one where they're covering things up or just not explaining exactly to investors what's on offer.

Bill Coen:
Good. Thank you, Martin.

Michael Jantzi:
Bill, can I just add something too, in the role of the board? And I agree more with respect to what Martin said from a corporate perspective, again, governance is just so critical to understand for our primary user base, and that was one of the reasons we adopted, I would call it the architecture of TCFD, the Climate Related Financial Disclosures. It's really core content, that's what we call it for both our general sustainability disclosures and our climate disclosures, that framework of governance strategy, risk metrics, and targets. And so, we have a great deal of focus on disclosure around the board's role and that governance role. We're not being prescriptive, but investors, our primary users have said unequivocally. It came back very strongly through our consultation process that understanding the governance of companies and how they're identifying and managing these risks and opportunities was really critical.

And it even sort of, I think lends itself to the questions about ecological illiteracy. And that is a broad issue, but there are, certainly from a primary user base, they want to know the extent to which the board as a whole and individual directors have the skills and the capacity and the understanding to deal with these issues more broadly. So, that is one element of the disclosures you're going to see from the ISSB is companies needing to disclose the extent to which their directors, the board directors are charged with that oversight, have the appropriate skills and capabilities to deal with these issues. So again, not prescriptive, but it's the information then that our primary users can leverage and can use to make their own evaluations in regard to how they wish to allocate capital.

Andres Vinelli:
If I may, one of the issues, Michael, you mentioned the issue of literacy in this area and human capital by extension. What I would say is that there's a lot of that, but also, it's a matter of just greater focus and analysis. For instance, we are finding that many funds do not disclose that a new fund that is on sustainability matters. It's actually an old fund that's been repurposed into, which is fine, and then if you actually talk about it and disclose it to the public and all that. So, that is not about literacy, this is about having a tighter set of governance and oversight, and the board has a role in there. The other area is what I think Martin was mentioning, rightly, which is the different cast of characters that you need in order to get this; it's not just one part of the investment firm. Another area of important inconsistency that we're finding is in the area of voting, voting, the shares, and again, this is about bringing people who are literally different people in most firms, right? Saying, well now this fund has this mandate and that means not only security selection, constructing a portfolio, but also how to engage with management. How do you vote those shares and all that? And that's that. That's literally a different set of characters in there.

Bill Coen:
Thank you, Andres. So, several of you, you know, have used the expression ecological illiteracy. Let me thank one of our participants, Lynn Johannson, who's provided some really thought-provoking questions. She mentioned greenwashing; the root cause of greenwashing is ecological illiteracy. If the official sector response is better sustainability reporting, what's the opinion of the panelists; will this actually help address the root cause of greenwashing, which Lynn contends is ecological illiteracy. I talked before about training, the importance of training, capacity building. Are these efforts that are required in addition to better reporting of better disclosure of green finance and sustainability?

Martin Moloney:
I can only say yes and what we've done: we've been in direct conversation with the ISSB about their capacity building work. We're doing our own capacity building work. I find the term capacity building, I don't think I used it a lot about a year ago, but it, it's become almost a term of choice at this point. We're all trying to get ourselves into a space where we can start to engage with some of these issues. It wasn't too long ago where people were scratching their heads on, and perhaps many of them even at COP sessions, as to what scope three emissions were. We've now moved beyond that, but we all have a very long way to go. I consider myself ecologically illiterate to a point and I've got a lot to learn, and I suspect we all have to keep at it.

Bill Coen:
Well put, Martin, and again, this plays into the strength of the Toronto Centre, which provides capacity building and training for financial sector supervisors. But there are investors, auditors prepared, I mean, the list is a mile long as to the training that needs to take place when it comes to these issues. I have the last question: any views on rating agencies? What should be the role of a rating agency in addressing greenwashing? Or is there a role? Any views?

Michael Jantzi:
Well, maybe I'll weigh in here with the caveat that I provided before that I was involved in that industry. But I mean, ratings agencies, like any other provider of information across the capital markets, has a responsibility to ensure that the processes that they have in place to provide that rating at the end of the day or provide their insights is that methodology is transparent, that methodology is robust, and that they can be held accountable in regard for the information they're putting into the market. So, to do that, they need the assistance of good quality, verifiable standards, and those types of things. But of course, I mean from my perspective, the ratings agencies have an important role to play and that they're willing to play it. But again, around sustainability disclosures, rating agencies were working in a nice to have environment that their clients thought, yeah, this was sort of nice to have information and so on. But that that's not the case. And so sometimes the systems that are in place are no longer fit for purpose, which is why you'll see that most of those ratings agencies are welcoming the idea that there'll be calls for greater regulation because then there's a greater trust in the work that they're doing.

Bill Coen:
Thank you, Michael. Friends, I see we have come to the end of this webinar. All that's left for me to do is to thank Michael, Martin, Carol, and Andres for your time, your expertise, and your views on this quickly evolving topic. It's only been, we're several years into this, but in terms of risks and risk management and risk reporting, we are really at the infancy of this Really interesting, an important topic. Let me thank you again for your time today. Let me thank the audience and everyone who joined us for today's webinar. Well done everyone.