



IOSCO's ESG Priorities, Ongoing Initiatives, and Potential Impacts

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Recording Date:

July 27, 2023

Transcript:

Jean Lorrain:

Hello everyone, and welcome to a new Toronto Centre podcast. First, let me introduce myself: my name is Jean Lorrain and I'm the Securities Advisory Board Chair of the Toronto Centre. I'm happy to have with me today Mr. Rodrigo Buenaventura, who is actually serving as Chair of the Spain National Commission of Capital Markets, or the Spanish acronym CNMV, since 2020. He is also chairing the ESMA (European Securities and Markets Authority) Markets Standing Committee and the IOSCO (International Organization of Securities Commissions) Sustainable Finance Task Force Since 2022. Rodrigo graduated in Economics at Universidad Autónoma de Madrid, and from 1993 to 2004, acted as a financial consultant at a leading private Spanish consulting company called AFI, where he also became a partner of the firm and a member of the executive committee. He then joined the CNMV in 2005 and was head of the International Affairs Department, and then the Secondary Markets department up to 2011.

From 2011 to 2017, he was the first Head of Markets at the newly created European Securities and Markets Authority, called ESMA, in charge of policy on post-trading secondary markets, market data, and market conduct. During that period, he contributed to the buildup of the organization and led the team that undertook the drafting and consultation of technical standards under many EU regulations enacted after the Grand Financial crisis. Back at the CNMV, he was then nominated Director General for Markets, and acted as such from 2017 to 2020 before becoming chair. Dear Rodrigo, it is a real pleasure to have you with us today and we thank you for accepting our invitation to talk to us about IOSCO's ESG ongoing initiatives. Maybe a first question to set the ground, Rodrigo, we're talking about ESG.



The planet is under fire; climate is really becoming a real live issue for all countries' concern, and as you chair the task force on sustainability, you've been mandated to oversee efforts relating to sustainability disclosure. The task force participated to the International Sustainability Standards Board, via ISSB, whose efforts is on developing new standards to improve the completeness, consistency, and comparability of sustainability reporting. The ISSB announced in late June the finalization of the first two sets of standards called IFRS S1 and S2, and these standards have been formally endorsed on July 25th by IOSCO. Can you tell us more about the nature of these two new standards, their importance and potential impact?

Rodrigo Buenaventura:

Well, thank you Jean, I'm really delighted to be here with you and especially in this important week because as you said, the day before yesterday we endorsed from IOSCO these new international standards produced by the ISSB. So, it's really a kind of a landmark time for sustainability reporting worldwide. So, I think it's a very timely topic, definitely for financial markets and for the planet as a whole, as you said. Well maybe before diving into the question about the nature of the standards and the impact, let me wrap up the context of these new developments and from where IOSCO is coming from. We became active as an international organization of security regulators around 2020 with this matter, and in February 2021, we called for the development of a new sustainability standards board at the international level. We call for it, let's say from the regulator's side with the idea of developing this common language in which issuers from around the world could report on sustainability matters.

That board was created precisely and was announced during COP 26, if I'm not wrong, November 2021 of the same year. In COP 27, the new board, the ISSB already consulted on the new standards in a matter of one year, which is a very short timeframe if you take into account the dimensions of the project. And we have, as you rightly said, we have just had the publication of these new standards, the S1 and S2, and the endorsement by IOSCO, therefore, by the supervisors of securities markets of those standards as considering those standards, the right global framework to support sustainability matters, and disclosure by issuers. So, it's a very meaningful project and IOSCO got involved into sustainability as I said, around 2020, three years ago on three avenues, and I will quickly go to your question and concentrate on the nature of the standards.

One was precisely on disclosure for issuers, the other one is on some considerations for asset managers and ESG ratings agencies to avoid greenwashing, and the third one is on carbon markets. But the first one, and the most important one so far is indeed the one on disclosure by issuers because they form kind of the basis the structure of information for the financial community outside, be it in private investors, be it asset managers, and the like. So, on this matter, the nature of the standards are standards that are meant as that reference so that particular jurisdictions and countries around the world can either adopt them as such or can build their own national standards or regional standards based on these global baselines or they can allow that for voluntary use of issuers. So, in other words, they are not as such mandatory standards, because the standard is like a proposal from the ISSB and supported by IOSCO, but then it is left to the discretion of each jurisdiction, each country, each region in the world, each province depends on the configuration of each country to decide whether to make that compulsory or not in the territory.



The good part of this is that we have a common standard, and therefore for those countries or regions in the world that go ahead and require that their issuers comply with this standard, the similarity will be so high that we will be achieving a de-facto single reporting regime, let's say internationally, which I think is the beauty of this project. So, in terms of the nature of it; to a certain extent, if you want, is very similar to the international standards on financial reporting, which are a reference established by an international standard setter and then each country or region decides whether to incorporate those IFRS or not, but at least we have a common language that is really global. In terms of the impact, well, these standards, probably - maybe it's worth underlining certain features. One of those features is that these standards allow companies and investors to have a single global framework of sustainability disclosures, which is what I just described, which is the main attraction of this idea.

The second is that these standards concentrate on what is material, what is proportionate, what is a decision useful for investors, etc. That's their main characteristic: these are standards mainly thought for investors to be able to price or to take decisions on the impacts of climate change on those issuers, in terms of risks and opportunities for those issuers. It's not everything that investors need, but it's a very important component of what they need in order to make their investment decisions. And then the third element is that from the start, we looked for a very close link between the sustainability standards and the sustainability reporting and the financial reporting in general so that they are coherent, they can work together, and they are, let's say, consistent between each other because it's very important that financial reports and non-financial reports, they follow a logic that is at least coherent and consistent.

Then, one final element that I think is really important, especially for developing countries and not-so liquid markets, which is that the ISSB, together with the standards published one month ago, what is called the adoption guidance or some description of the future of adoption guidance that in a nutshell is describing what is expected from jurisdictions and countries when adopting these standards and incorporating them in their national law. To which companies they are expected to be applied, for instance, not to SMEs, but clearly for more complex and larger organizations to which kind of markets. So, it's describing what are the expectations for the adoption at country level, at jurisdiction level of these standards, which is a very important component because we have ahead of us, I wouldn't say a long road, but a number of elements that we need to still nail down, like capacity building, digitalization of these information assurance, probably we'll be able to talk about that later.

Jean Lorrain:

Yeah, thank you. Rodrigo. I'm somewhat... I would say concerned or taken by the notion that these will not be mandatory as you've mentioned, and I'm thinking about recent developments. For example, in the US in the United States, the SEC's March 2022 announcement and standardization of climate-related disclosure for investors was released, which focuses on the protection of investors in publicly traded companies in the U.S. It applies in fact to all SEC registrants including foreign private issuers, so it seems to be capturing a lot of market related entities. In Europe, the European Financial Reporting Advisory Group (EFRAG) released guidance in April of 2022 on a range of sustainability related disclosure requirements. Seems to me that there are some initiatives in certain regions or certain countries even in advance of the new IFRS or the new ISSB standards. What is the impact of those initiatives when you think of trying to harmonize as much as possible disclosure related to sustainability. In that context, what are the impacts of such initiatives?



Rodrigo Buenaventura:

Well, indeed, this has been a, I would say a high-activity area internationally in the last two, three years, and clearly, some areas of the world, some regions, some jurisdictions like the European Union went ahead already early on by developing their own concept and standards for disclosure by issuers, and the US has done that more recently in 2022. Well, I would say first the concept that we use when referring to these in IOSCO is the idea of interoperability of standards. So, we have a global baseline, which is the one that IOSCO has endorsed, and there are some regional initiatives like the ones that you described, either regional in the case of the EU or national in the case of the US, in different degrees of advancement. Paradoxically, although the ISSB standards started later than the European ones, they have been finalized a few months before the European ones are finalized because the European commission still needs to adopt them.

So, it has been a very fast pace at the international level, and I think that has been conscious in order to have as soon as possible some international reference to which we could have some convergence. So, probably in the case of the US, the situation is a bit different because there was at a certain point in time, like three, four years ago, a certain mismatch in terms of how strong the political support to sustainability matters was in Europe and in the U.S. That is probably no longer the case, but probably that explains why there was a different pace of development of standards on both sides of the Atlantic to say so. In the case of the European Union standards, there has been a very, very strong engagement between the ISSB and a specific group that the ISSB constituted, which is called something of the jurisdictional working group, which is a way of saying that the ISSB has been liaising with other jurisdictions and particularly with European and Asian jurisdictions mainly, not only. To try to have as much interoperability as possible and by interoperability what I mean is that when two standards, the ISSB standards and the European ones overlap, that there is a common area that they cover, they regulate, they address, let's say. In those overlaps, to ensure that issuers when reporting under one of them also comply with the other standard so that they don't need to double report, which is the basic objective.

And then, investors are the receivers of the information when they read a publication of a European company on those matters and they know that it's been done according to the European standards, they know that those are also compliant with international watch. Now, since we don't have, yet, the standards finalized in Europe, we cannot assure that there will be such interoperability, but there has been a lot of engagement, as I said, a lot of political and institutional will on both sides to try to converge, and I'm kind of optimistic, maybe by nature, but I'm optimistic on the fact that we will have a very, very high degree of interoperability between international and the European ones. Taking also into account that we recognize that the international standards cover only general sustainability, what I would call the mother standard, because it's like an umbrella, and a particular one on climate, but just on climate, and the European standards are way wider than that. They cover climate, but they also cover biodiversity, water, circular economy, and you name it. So, that overlap is only on climate matters, but probably is the most urgent problem as you said in the introduction, and I am confident that we will be able to reach a very high degree of interoperability in this case.

Jean Lorrain:

Not wanting to put the U.S. too much on the spot here, but is the conclusion the same with the U.S. proposal?



Rodrigo Buenaventura:

Well, the U.S. proposal I would say is in a different stage because there was a consultation by the SEC with a lot of replies to that consultation and they still don't have in the U.S. a final rule pending adoption, like in the EU. So, it's more difficult to judge that degree of possible interoperability in the case of the US. Again, I would hope that since the basis for a lot of the work was building on previous efforts like TCFD and other initiatives, there is a chance or a hope for a high degree of compatibility, but since we are in a different stage, it is it's more difficult to arrive to a conclusion in this case.

Jean Lorrain:

So, it is something to see in the future, hopefully positively. That being said, because the new standards are not necessarily mandatory and even with the acknowledgement of IOSCO about their existence, isn't there a risk for other countries to take regulatory reactions that are not necessarily in harmony with the new standards? I know that you said that the pressure or the peer pressure of all the international standards is the same with the IFRS, and you will see implementation that could be harmonized, but isn't there a risk of disharmony, if I can use this expression?

Rodrigo Buenaventura:

I would like to think that the risk has diminished significantly since we have these standards. If you allow me the comparison, it is true that the IFRS, on the financial reporting side, was born when there was a certain set of national accounting practices, yeah, gaps let's say. But I would say that it is also true that since the birth of the IFRS, we haven't had many other new national initiatives to cover that aspect. It was the pre-IFRS, or the IFRS - what we have now currently. So, I would tend to think that with the birth of the ISSB standards, of course you might have preceding or simultaneous national initiatives that might coexist, but it is kind of hard for me to conceive a situation in which we have a myriad of completely brand new national initiatives that have nothing to do with the ISSB, because it has already set a certain bar, certain reference.

I think also, and maybe I'm putting too much importance on the endorsement from IOSCO, but I think the message of IOSCO is saying we endorse and we call on members, which is what IOSCO has said, we call on members, which are the regulators of practically all the financial markets in the world to adopt these standards or be informed by these standards when they develop their national standards, is a very powerful message. I would say that there is also more than a peer pressure; there is also a healthy, let's say, incentive for issuers to demand the regulators to allow us to do single reporting because many issuers are active internationally and if they have to report in three, four, or five different standards, it will be costly for them. It will be resources that actually are not producing a special value for society as a whole. So, I hope that there is also this will of investors and issuers to support the idea of standardization at global level.

So, I would think that the risk of divergence is quite muted after we have had these publications and these endorsements but let me just elaborate on one thing very briefly. It is also important to take into account that in some jurisdictions there will be not just a complete adoption of the international standards, but a kind of translation of those international standards into a national standard with a branding and a governance that is national or regional, but that technically and in content-wise, is replicating line by line the international standards. So some jurisdictions, I think that some ideas in Canada were around that of creating a standards board at a national or provincial level, but that would basically build on the international standards so that you would have that de-facto compatibility interoperability, whatever you want to call it, even though you keep the decision power and the governance at national level. For me, that is absolutely fine because what we are looking for is actual compatibility and recognizability (does that word exist in English? I don't know) of the standards internationally, which I think is met and achieved by having that global data.



Jean Lorrain:

Very positive, then. Very interesting, also. The new standards address sustainability in a large frame, as one is about all this. Climate on S2 is really more specific. Are there new standards that we can expect coming into force or being implemented by the ISSB in the short frame?

Rodrigo Buenaventura:

Absolutely. The ISSB has precisely launched, I think it was late spring that they did that or early summer (northern hemisphere I'm referring to), they have launched a consultation asking for views on which should be the next steps, whether the ISSB should develop the let's say S3, S4, and the like based on things like water or biodiversity or some other topics of interest within the sustainability area, and I would be expecting the ISSB to start working on further standards when they have gathered that evidence, that input, from the market participants and from the users. Indeed.

Jean Lorrain:

Okay. The 2023-2024 IOSCO work plan mentions that the task force will continue working on promoting independent assurance of corporate sustainability disclosures. IOSCO board chair Jean-Paul Servais commented on the relevance of developing a high-quality sustainable assurance framework, which would be an important component to contribute to underpinning high quality, consistent, and reliable sustainability-related information. In fact, just today a press release was made about assurance and that area. I'd like to hear from you about this initiative in fact, and how this can interact positively in the context of climate reporting and sustainability reporting overall.

Rodrigo Buenaventura:

Well, this is a truly important aspect of all this because if we don't have the mechanisms to ensure that the information is accurate, has been built appropriately, and that corresponds to reality, the credibility of this type of information would be significantly damaged. Therefore, the assurance of sustainability reports, to put it shortly, is a key element for the whole system to work correctly. So, what IOSCO did is in June 2021, we published a report calling for, well pointing out the relevance of the assurance of this type of information, and through 2022, IOSCO gathered a lot of input and feedback from stakeholders like investors, issuers audit, and insurance providers, and we engaged very actively with the two key standard set on this, which is the IAASB, so the International Auditing and Assurance Standards Board, and the IESBA, which is the International Ethics Standard Board for Accountants.

Now, when we spotted the relevance of these, I think it was also matched by a very, very responsive attitude from those organizations to start working on this. Of course, this follows a bit, in terms of calendar, the development of the standards themselves; first you need to have clarity on what the standards say, and then you can work more intensely on how to do guidelines and principles and rules for the providers of assurance. So, in March of this year, March 2023, IOSCO published a report on what was our vision for what needed to be improved in the sustainability assurance space. It's a report on international work to develop a global assurance framework for this type of sustainability related reporting, and you can find that, of course, on the IOSCO website. This report is summarizing what we think should be strengthened, which is the idea of having professional diagnostic standards, so that work both for auditors or for other companies that provide assurance services in several areas and regions of the world have more or less importance depending on culture and market circumstances.

The second one is the fundamental timeliness of these standards. We need to have these standards before the issuers start to report in 2025, their 2024 figures. So, that is the key date. And before that, we need to have these standards on assurance completed so that assurance providers can operate under them and that we increase gradually the level of ambition of these standards with the ultimate goal of having reasonable assurance of this type of reporting.



Of course, we will need to start having only limited assurance, let's say stated from the assurance provider because the internal controls in organizations are not yet ripe enough for these, but the level of ambition is to have reasonable assurance in the medium term. And the last one, the fourth element that IOSCO called for was to ensure the connectivity of the assurance services for financial and again, non-financial reporting so that there is a logic there and there is some consistency there.

So, as I said, both IASB and the IESBA have been extremely reactive and extremely enthusiastic about developing work on these because they see the importance of these new works. So, IAASB announced a consultation that will be open until December on a brand-new set of standards. This the ISA 5,000 and the IESBA has also announced there will be a consultation. So, we plan to continue to have a strong engagement with these two bodies and to establish that pathway towards financial and non-financial reporting subject to coherent assurance framework that can give confidence and trust to the investing community.

Jean Lorrain:

Thank you. There are so many subjects that we can talk about, and we always have limited time to do so and that will be probably an opportunity to invite you back and try to discuss those upcoming issues. You chair the task force on sustainability; climate is certainly one important aspect of it. I know that assurance, as you just mentioned, is also central to what IOSCO is trying to achieve through it, your task force. Are there any other subjects that the people listening to this podcast would be really interested in learning about?

Rodrigo Buenaventura:

Sure, maybe I could point out two of them very briefly. One of them is to transition plans in general, which are increasingly important; companies that are announcing their transition plans and we need some order in that, let's say, to be able to judge that from the investor point of view. The other one is clearly carbon markets. So, IOSCO issued a report last November on compliance carbon markets make those systems that are based on the cap-and-trade approach, emission allowances like the one that is operating currently in the European Union, in California, and I think in Montreal, even, if I'm not wrong. But clearly, the attention is on voluntary carbon credits or voluntary carbon markets, the certificates about capture or compensation of carbon that others can use to meet their targets.

That is an increasingly active market, lot of complexity, lack of rules so far because it's an nascent market, and IOSCO aims at developing some recommendations for carbon credits for voluntary carbon markets in a manner that we can export, let's say to those markets, the financial integrity principles and rules that we have been working on in financial markets for a number of decades, which will improve the credibility and the orderly trading, let's say, of those markets and to our mind, will allow the development of those markets in a more sound and stable manner. That will clearly, if I had to summarize the coming months, it would be in terms of the IOSCO perspective and the IOSCO work, would be the implementation of the issuer reporting for climate as I mentioned before. And the other star, let's say, of our work program, would be the development of recommendations for voluntary carbon credits.

Jean Lorrain:

Well, Rodrigo, on behalf of the Toronto Centre, I would like to thank you for participating in this podcast. I think your answers and development on the questions are really interesting and I think that our audience will be gaining a lot of information and knowledge out of it. So, thank you again and hopefully we can do another one quite soon with further developments.



Rodrigo Buenaventura:

Well, it's been a pleasure Jean, and thank you for the opportunity and I hope that it's been useful for our listeners and of course I'm delighted to do a part two if there is demand for that.

Jean Lorrain:

Thank you.