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Mobilising IOSCO to take action on the TCFD recommendations

Regulatory divergence in terms of climate related risk disclosure and corporate governance makes it difficult for investors with a global portfolio to accurately assess risk and allocate capital. Widespread implementation of the recommendations from the Task Force on Climate-related Financial Disclosures across global markets would help address this issue. IOSCO occupies the most favourable position for action at a global scale, and should be a key target of investor-led initiatives seeking to ensure harmonised climate risk reporting. IOSCO has remained silent on this issue since the release of the recommendations – but investors have a strong basis for demanding action either through activating national securities regulators to engage with IOSCO on their behalf, or through engaging IOSCO directly.

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Foreword

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IOSCO and climate risks

Investors now understand that climate change carries significant financial risks. Insurers are grappling with the rising costs of extreme weather events. Entire industries – from auto manufacturers to utilities – are beginning to see that past success offers no guarantee as the world shifts to a low-carbon economy. Innovation is key, which is why long-term investors must engage with companies, encouraging them to think strategically about their resilience in the low-carbon transition.

At the same time, climate change is a risk which has the potential to affect not just single companies, but entire markets. With a growing number of the world's assets moving into index-tracking strategies, promoting stable, well-functioning markets is more important than ever.

In 2017, we welcomed the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) as a key first step in raising market standards. To be able to assess climate risks – as well as opportunities – investors require access to consistent, comparable data across industries and asset classes. We have proactively encouraged companies to report in line with the TCFD, and have been working with the UK government and the EU to take this agenda forward.

With institutions managing over $80 trillion in assets now supporting the TCFD, the momentum is undeniable. At the same time, the usefulness of climate reporting depends on wider harmonisation and standardisation across different jurisdictions. Recognised as the global standard setter, the International Organization of Securities Commissions (IOSCO) is ideally placed to accelerate progress. Improved disclosure around climate change is well-aligned with IOSCO's twin mandates of managing risk and ensuring that markets receive decision-useful information.

This white paper offers several practical, timely suggestions through which IOSCO can improve the management of climate change by global capital markets. As a major global investor, we would like to call on IOSCO to acknowledge the TCFD recommendations and encourage their incorporation into international listing standards. Consistent with IOSCO's history in promoting transparency, better climate disclosures can help lead to a swifter allocation of capital to finance a future worth living in.

Legal & General
INVESTMENT MANAGEMENT

1

State of play in relation to TCFD implementation

It is now over a year since the Task Force on Climate-related Financial Disclosures (**TCFD**) released its recommendations on 29 June 2017. Established by the Financial Stability Board (**FSB**) in 2015 to mitigate the systemic financial risk posed by climate change, this industry led initiative spent 18 months consulting with a wide range of business and financial leaders from multiple jurisdictions to develop recommendations for enhanced disclosure of climate-related risks and opportunities.

During development of the recommendations, the TCFD noted broad support from industry and a significant increase in investor demand for improved climate-related financial disclosures.[1] This investor demand continues to increase: Aviva Investors has warned more than 1,000 companies that it will vote against their annual reports and accounts if they fail to comply with the TCFD recommendations.[2] Similarly, BlackRock's 2017-18 Engagement Priorities cover climate risk disclosure and include a warning that BlackRock will vote against management – and the re-election of directors – if they fail to engage with climate risk.[3]

Much of the current debate around the TCFD recommendations relates to their integration into national reporting requirements. In the UK, the Government has endorsed the TCFD recommendations,[4] and the recent Green Finance Taskforce report includes proposals in relation to regulator implementation of the TCFD recommendations in the national corporate governance and reporting framework.[5] There is a similar story in the EU. The recently launched Sustainable Finance Action Plan (which reflects many of the recommendations from the High Level Expert Group on Sustainable Finance (**HLEG**))[6] states that the European Commission will provide guidance on how to disclose in line with the TCFD recommendations by Q2 2019.[7]

However, a significant concern is that momentum on TCFD implementation is an EU phenomenon that is not apparent in other economies. If other economies are slower on the uptake – resulting in regulatory divergence in terms of climate risk disclosure and corporate governance practices – this has significant implications for investors with a global portfolio. The EU nucleus of support for the TCFD recommendations could result in inconsistencies in climate-related disclosures across jurisdictions and markets - making it difficult for global investors to accurately assess risk and allocate capital accordingly. Such inconsistencies could also encourage EU-listed companies to shop for more lenient jurisdictions, as some contend happened following the enactment of Sarbanes-Oxley in the U.S.[8]

The International Organization of Securities Commissions (IOSCO) is well positioned to address this issue by promoting widespread implementation of the TCFD recommendations across different jurisdictions and economies. Moreover, IOSCO occupies the most favourable position for action at a global scale in relation to harmonised climate risk reporting.

Based on its unique position within the global financial regulatory architecture, and its capacity to influence capital markets regulators, IOSCO should be a key target of investor-led initiatives seeking to ensure that the TCFD recommendations are adopted across the global capital markets. This paper identifies different ways in which IOSCO could promote harmonised climate risk reporting and implementation of the TCFD recommendations, and how investors can push for such action from IOSCO.

2

Benefits of investor engagement with IOSCO

Mobilising IOSCO is a key intervention point for investors seeking to promote harmonised climate risk reporting and ensure the TCFD recommendations are implemented consistently across the global capital markets.

Widespread adoption of the TCFD recommendations across the global capital markets would help protect investors by providing information that is highly relevant to investment decision-making, thereby enabling them to allocate capital efficiently and at the same time reduce systemic financial risk. It would also help address the fact that companies currently face 'different/overlapping/conflicting reporting concepts and frameworks' creating inconsistency both within and across jurisdictions.[9]

While the 'bottom up' approaches identified above (e.g. directly engaging with companies and financial services firms to push for climate risk reporting in line with the TCFD recommendations) can be effective interventions, we believe investors need to complement such efforts with a 'top down' approach that targets IOSCO at the top of the regulatory chain. No other organisation involved in securities regulation has such broad reach or a similar capacity to promote consistent climate risk reporting across multiple jurisdictions.

IOSCO's force as an organisation lies in its ability to influence the activities and policies of national and regional securities regulators and thereby achieve consistency in global regulatory approaches. Although it has no legal authority and cannot enforce its standards or recommendations,[10] these standards may be implemented by its members at a national or regional level and/or its members may push for regulatory reform to enable such implementation within their respective jurisdictions. Action by IOSCO could have a 'trickle-down effect' of national regulators integrating the TCFD recommendations into existing corporate governance and reporting frameworks (whether by 'soft law' corporate governance and stewardship codes or by mandatory listing requirements).

IOSCO's impact in this regard has been noted by commentators in the EU context: '[i]t seems clear that IOSCO standards and guidance are exerting a soft influence on the development of EU standards and rules, given the useful templates they can provide for regulators struggling with an avalanche of reforms'.[11] IOSCO is well positioned to play a similarly influential role in relation to climate risk reporting.

3

IOSCO's role in addressing climate related financial risk

IOSCO is an international association of securities regulators across more than 115 national jurisdictions.[12] IOSCO's reach as an organisation is expansive: its 217 members are responsible for regulating over 95% of the world's securities markets.[13] Its members include all the world's largest capital markets regulators, including the UK Financial Conduct Authority (**FCA**), the US Securities and Exchange Commission and the European Securities and Markets Authority (together with many other national financial regulators).

One of IOSCO's three objectives is to develop, implement and promote adherence to internationally recognised standards for securities regulation - IOSCO is recognised as 'the global standard setter for the securities sector.'[14]

IOSCO's key regulatory standards are the IOSCO Objectives and Principles of Securities Regulation (the **IOSCO Principles**). The IOSCO Principles contain 38 overarching principles to guide members in regulating securities markets and to guide IOSCO itself in developing and implementing standards of regulation, oversight and enforcement.[15]

The IOSCO Principles are based on three objectives: protecting investors; ensuring that markets are fair, efficient and transparent; and reducing systemic risk.[16] IOSCO defines systemic risk as 'the potential that an event, action, or series of events or actions could have a widespread adverse effect on the financial system and, in consequence, on the economy.'[17]

IOSCO has also published a methodology for assessing implementation of the IOSCO Principles and to guide IOSCO's interpretation of the IOSCO Principles (the **IOSCO Methodology**).

IOSCO has stated that it is a 'top priority' for members to achieve the effective implementation of the IOSCO Principles in order to protect investors and mitigate against global systemic risk.[18] The FSB has also stated that the IOSCO Principles are key to ensuring sound financial systems and that they deserve priority implementation.[19]

3.1

IOSCO framework as it applies to climate risk

In the context of climate risk, two IOSCO principles are particularly relevant, as set out in the following table.

IOSCO Principle 6
(focused at regulators)

The Regulator should have or contribute to a process to identify, monitor, mitigate and manage systemic risk, appropriate to its mandate.[20]

IOSCO has identified 'disclosure and transparency requirements' as a key tool available to securities regulators to help them achieve this.[21]

Climate change is widely regarded as a systemic risk.

Implementation of the TCFD recommendations by IOSCO regulator members would help fulfil Principle 6 through contributing to a process to identify, monitor, mitigate and manage a systemic risk.

IOSCO Principle 16
(focused at issuers)

There should be full, accurate and timely disclosure of financial results, risk and other information which is material to investors' decisions.[22]

IOSCO explains that this principle 'requires consideration of the adequacy, accuracy, and timeliness of both financial and non-financial disclosures as well as disclosure of risks that are material to investors' decisions'.[23] **Climate risk is a material risk for many of the world's largest public companies, from fossil fuel producers and utilities to banks, asset managers and insurers.**[24]

Implementation of the TCFD recommendations in disclosure regimes would help issuers fulfil Principle 16, as it would help ensure that issuers provide full, accurate and timely disclosure of climate related financial and risk information that is material to investors' decisions.

IOSCO's *Principles for Ongoing Disclosure*[25] by listed entities are also highly relevant to climate risk reporting and ensuring that issuers' disclosures are not misleading or deceptive. In particular, Principle 1 provides that '[l]isted entities should have an ongoing disclosure obligation requiring disclosure of all information that would be material to an investor's investment decision.'[26]

In addition, Principle 5 states that '[o]ngoing disclosure of information should be fairly presented, not be misleading or deceptive and contain no material omission of information.'

3.2

IOSCO organisational structure and working practices

The **IOSCO Board** is IOSCO's governing and standard-setting body, comprising 34 securities regulators.[27] The Board 'reviews the regulatory issues facing international securities markets and coordinates practical policy responses' to these issues.[28] This work is carried out by eight **Policy Committees** in accordance with a work plan set by the IOSCO Board.[29]

The Committee on Issuer Accounting, Audit and Disclosure (Committee 1) is most relevant to harmonised climate risk reporting and the TCFD recommendations.

Committee 1 is responsible for monitoring key international developments related to disclosure and identifying potential issues related to investor protection and is 'dedicated to improving the development of accounting and auditing standards, and enhancing the quality and transparency of the information that investors receive from listed companies, including financial institutions.'[30] To achieve this, Committee 1 'develops international disclosure standards and principles that provide a framework for member jurisdictions seeking to establish or review their disclosure regimes for entities that issue securities.'[31] Also relevant is the Implementation Task Force (**ITF**) sub-committee, which is responsible for maintenance of the IOSCO Principles and the IOSCO Methodology.[32]

IOSCO committees may work collaboratively on joint projects. For example, an IOSCO Board decision in 2016 led to several committees and stakeholders analysing how IOSCO could support its members and market participants to improve cyber security in securities markets.[33] This resulted in a report, which reviewed different regulatory approaches to cyber security and outlined tools available to regulators to respond to cyber risk.[34] IOSCO has also worked with independent organisations (e.g. the International Energy Agency and the Organisation of Petroleum Exporting Countries) where it does not have the requisite expertise.

IOSCO also establishes short-term **Task Forces** and **Working Groups** to address specific issues[35] and also has a **Research Function**.[36] IOSCO also produces consultation reports with a view to encouraging the public to comment on its analysis and recommendations. These can be anything from identifying and promoting regulatory approaches, to seeking input to possible guidance or best practices reports.

3.3

IOSCO outputs

The output from an IOSCO Committee or Task Force can take various forms.[37] Different outputs have been used in the past to address emerging risks or issues in capital markets, or address cross border discrepancies – and could similarly be used to harmonise climate risk disclosures.

Principles

IOSCO states that this term is reserved only for those principles contained in the IOSCO Principles.[38] However, IOSCO may issue statements about international developments that are relevant to these IOSCO Principles. For example, in 2016, Committee 1 issued a *Statement on Implementation of New Accounting Standards*, which provides guidance to members on implementing three new International Financial Reporting Standards issued by the International Accounting Standards Board.[39] The Statement highlights the relevance of the reporting standards to IOSCO Principle 16 and outlines matters for issuers and their audit committees to consider when adopting the reporting standards.[40]

Standards

For example, in 1998 IOSCO published International *Disclosure Standards for Cross-border Offerings and Initial Listings by Foreign Issuers*.[41] The Standards outline non-financial statement disclosure standards for offerings and listings of equity securities. They 'provide alternative standards for the preparation of a single disclosure document by foreign issuers, but do not necessarily replace a jurisdiction's existing disclosure requirements.'[42] To ensure that material information is also provided to the public on an ongoing basis, IOSCO subsequently developed complementary high level *Principles for Ongoing Disclosure* for all listed entities (which as noted above are relevant to climate risk reporting).[43]

Recommendations

For example, in 2018 IOSCO issued recommendations to improve liquidity risk management practices of open-ended collective investment schemes.[44] At the same time, IOSCO issued a supplementary report outlining practical information and good practices with additional guidance for securities regulators.

Good or Sound Practices

For example, in 2015 IOSCO published a final report on Sound Practices for Investment Risk Education, based on an analysis of approaches and practices adopted by the members of IOSCO's *Committee on Retail Investors* (Committee 8).[45]

Survey Responses

For example, in 2015 IOSCO published a Survey Responses Report on 'Crowdfunding', which aimed to enhance IOSCO's understanding of members' regulatory programs in relation to investment-based crowdfunding and to highlight emerging, trends or issues in this area.[46]

While the form of IOSCO output may vary, each output may contribute towards influencing the activities and policies of national and regional securities regulators – thereby helping achieve consistency in regulatory approaches.

4

Opportunities for action by IOSCO

As a first step, IOSCO could issue a formal acknowledgement of the TCFD recommendations and announce any steps it plans to take with regard to climate risk disclosure.

In doing so, IOSCO could highlight the link between the TCFD recommendations and achieving the IOSCO Principles as they apply to climate risk. As noted above, implementing the TCFD recommendations would help members fulfil IOSCO Principle 6, which states that regulators should 'contribute to a process to identify, monitor, mitigate and manage systemic risk.' In the context of climate risk, TCFD implementation by members would establish a process by which climate risk is adequately identified and managed by the market. This argument is strengthened by the fact that IOSCO has identified 'disclosure and transparency requirements' as a key tool available to regulators to help them fulfil IOSCO Principle 6.[47] TCFD implementation would also help fulfil IOSCO Principle 16, which requires issuers to provide 'full, accurate and timely disclosure of financial results, risk and other information which is material to investors' decisions.' The TCFD recommendations provide a framework for climate risk disclosure, including scenario analysis, which will help ensure such disclosure is more robust, accurate and consistent between issuers and markets.

IOSCO could also highlight the link between the TCFD recommendations and IOSCO's *Principles for Ongoing Disclosure* for all listed entities.[48] As noted above, Principles 1 and 5 are particularly relevant to climate risk reporting, as they require issuers to disclose 'all information that would be material to an investor's investment decision' and that such disclosure is 'fairly presented, not be misleading or deceptive and contain no material omission of information.'[49]

IOSCO has previously issued statements about international corporate reporting developments that are relevant to the IOSCO Principles. As noted above, Committee 1 issued a *Statement on Implementation of New Accounting Standards*[50] highlighting the relevance of new reporting standards issued by IASB to IOSCO Principle 16 and outlining matters for issuers and their audit committees to consider when adopting the standards.[51]

However, we believe IOSCO's formal acknowledgement of the TCFD recommendations and their relevance to IOSCO's objectives and principles should only be the first step. The following suggestions for IOSCO activity would help ensure that a harmonised climate risk disclosure framework is implemented consistently across the global capital markets.

4.1

Updating IOSCO Principles and IOSCO Methodology

The IOSCO Methodology and the IOSCO Principles could be updated to expressly refer to climate risk and the need to report such risk where material, and how the TCFD recommendations provide an industry-endorsed framework for doing so.

The IOSCO Methodology was last updated in May 2017 (prior to the release of the TCFD recommendations in June 2017).[52]

The impact of climate change on market and regulatory dynamics means that 'virtually every company's activities, business models and strategies will need to be completely rethought.'[53] And, as the Bank of England recently stated, climate change does not create a new category of risk but will 'translate into existing categories, such as credit and market risk for banks and investors, or risks to underwriting and reserving for insurance firms.'[54] Referring to climate risk in the IOSCO Principles and IOSCO Methodology, and promoting the TCFD recommendations as a means of addressing it, would be entirely consistent with IOSCO's objectives in relation to protecting investors, ensuring that markets are fair, efficient and transparent, and reducing systemic risk.

As noted above, the EU nucleus of support for the TCFD recommendations also means that such action would be consistent with developments in many IOSCO members' jurisdictions. For example, in July 2018, the UK's Financial Reporting Council, released revised *Guidance on the Strategic Report*, which includes that companies 'should consider the risks and opportunities arising from factors such as climate change and the environment, and where material, discuss the effect of these trends on the entity's future business model and strategy.'[55] Many IOSCO members are likely to be supportive of IOSCO acknowledging climate risk in its own documents (as many members are already mobilising on this issue).

4.2

Developing new climate risk reporting standards

IOSCO could develop new climate risk reporting standards that can be used by its members in performing their regulatory functions. These standards could be based on the TCFD recommendations, and identify them as the preferred framework for climate risk reporting.

The new standards could outline what information IOSCO members should require issuers to disclose in relation to climate risk and how to incorporate such requirements into regulators' existing financial reporting frameworks.

New standards need not be suggestive of new substantive reporting requirements being imposed on issuers. This is because in many, if not most jurisdictions, issuers are already required to report material financial risks in their corporate disclosures. As IOSCO has acknowledged, '[i]n spite of the different approaches used, most jurisdictions agree that listed entities should have an ongoing obligation to disclose information that would be material to an investor's investment decision and that is necessary for full and fair disclosure.'[56] Similarly, the TCFD has stated that 'in most G20 countries, issuers have a legal obligation to disclose material information in their financial reports—which includes material, climate-related information.'[57]

To start, IOSCO could help clarify the meaning of 'materiality' with respect to prospective climate-related contingencies and provide guidance on how such assessments should be performed. This step alone could facilitate the integration of the TCFD recommendations into existing national disclosure regimes and more closely align the currently diverging views of firm managers and investors with respect to the materiality of climate risk.

By producing new standards on climate risk reporting, IOSCO would be contributing to standardised climate risk reporting across the global financial sector (consistent with many existing national disclosure laws and corporate governance principles). Historically, IOSCO has played an important role in promoting consistency in securities regulation and setting standards that can be applied across jurisdictions.[58] Ensuring consistency in climate-related disclosures across jurisdictions would be a logical continuation of this role.

Finally, new climate risk reporting standards would be consistent with IOSCO's current strategic direction. IOSCO's Strategic Direction 2015 to 2020 states that 'standard setting and guidance is one of the main contributions IOSCO can make in responding to the challenges members will face to 2020 and contemplates more intensive effort in this area.'[59]

4.3

Producing reports on climate risk building on the work initiated by the TCFD

Action in relation to the IOSCO Principles and IOSCO Methodology, or new climate risk reporting standards, should build on information revealed by reports and surveys of member jurisdictions and relevant constituencies.

IOSCO should consider TCFD members' comments on gaps remaining after the release of the TCFD recommendations. For example, IOSCO could publish a report on climate change related financial risk and outline the process by which its members could address climate related financial risk by incorporating the TCFD recommendations into their existing regulatory frameworks. IOSCO could also (either on its own or in partnership with other experts) produce useful guidance on principles for climate risk scenario analysis, or on how preparers should assess the materiality of potential future climate-related financial impacts.

As outlined above, Committee 1 would be best placed to produce such reports, since climate risk reporting falls squarely within its remit. They could start by publishing a brief consultation report with the aim of encouraging investors to express their views on priority areas and on how IOSCO could best add value to the TCFD recommendations.

IOSCO's Research Function also produces reports, analysis and tools to inform the IOSCO membership and the public on securities market issues. The Research Function's focus includes addressing systemic risk and identifying emerging risks—a report on climate related financial risk would therefore be a timely topic for the Research Function to consider, alongside ongoing work at Committee 1.

The IOSCO Board itself publishes reports on policy topics relevant to investors and regulators – an example is the March 2018 report[60] on senior investor vulnerability. A report in a similar format could also be produced by the IOSCO Board on the issue of climate related financial risk and usefulness of the TCFD recommendations.

5

Action on TCFD falls under IOSCO's mandate

In light of IOSCO's global reach, standard-setting function and its emphasis on addressing systemic risk through financial disclosure requirements, IOSCO is well positioned to play a key role in harmonising climate risk reporting and promoting widespread implementation of the TCFD recommendations across the global capital markets. As the Economist Intelligence Unit has stated, 'the incorporation of climate-risk analysis to enhance investor protection and reduce systemic risk is an obvious next step' for IOSCO.[62]

However, to date, IOSCO has remained silent on the TCFD recommendations and on climate-related financial risk more broadly.[63] This silence has been noted by commentators and the international community - for example, the HLEG recently stated that in relation to climate risk, IOSCO 'has for far too long remained silent on an issue at the core of its business.'[64] It recommended that IOSCO should foster TCFD adoption and that the EU and its Member States should 'encourage IOSCO to make sustainability disclosure mainstream across financial securities and stock exchange listing requirements, starting with the TCFD.'[65]

The report from the Economist Intelligence Unit (which examined the mandates of international regulatory and standard-setting bodies to determine whether they cover climate-related risk disclosure[66]) found that IOSCO is 'failing to act fully on [its] existing mandates in terms of setting climate-related risk standards and ensuring stability.'[67] IOSCO's lack of policy development and standard-setting in relation to climate risk reporting was described as a 'conspicuous gap in action' on its mandate.[68]

As set out below, this 'conspicuous gap' is even more puzzling in light of the process for developing the TCFD recommendations and the relationship between IOSCO and the FSB (as the originator of the TCFD recommendations).

IOSCO's international focus requires it to account for jurisdictional differences between its members and the markets they regulate. It states that 'the IOSCO Board should consider whether the level of granularity in the guidance, recommendations and standards it sets out is appropriate and facilitates global implementation.'[69] This requirement for a sufficient level of generality is reflected in the IOSCO Principles themselves, which 'have been drafted at a broad conceptual level to accommodate the differences in the laws, regulatory frameworks and market structures' among its members.[70] IOSCO's *Principles for Ongoing Disclosure* also acknowledge that 'there is no "one-size fits all" approach for all IOSCO members' due to the fact that 'individual market characteristics and regulatory regime[s] are different'.[71]

However, as an FSB initiative, the TCFD recommendations are inherently international. Their development involved consultation with a wide range of business and financial leaders from multiple jurisdictions. In this sense, they are comparable to international accounting standards. The International Financial Reporting Standards Foundation has stated that '[a]ccounting standards are a set of principles companies follow when they prepare and publish their financial statements, providing a standardised way of describing the company's financial performance.'[72]

The TCFD recommendations similarly provide principles and a framework for standardised reporting of climate risk. As noted above, Committee 1 issued a *Statement on Implementation of New Accounting Standards* highlighting the relevant of new reporting standards issued by IASB.[73] This is despite the fact that these reporting standards are not mandatory in all IOSCO member jurisdictions.[74] There is no reason why IOSCO should issue a statement and provide guidance to its members in relation to accounting standards but not in relation to the TCFD recommendations.

In addition, as an FSB initiative, the TCFD recommendations have been developed with an institution that IOSCO works closely with[75] IOSCO has stated that it 'supports the global risk identification and mitigation efforts' of the G20 and the FSB and that the Research Department 'actively engage[s] with these organisations'.[76] In establishing the TCFD, the FSB stated that the TCFD's work 'should be informed by the international principles developed by standard setters, including IOSCO's high level principles.'[77] As such, from the outset, the TCFD recommendations have been designed to reflect the IOSCO Principles.

Therefore the requirement to maintain a sufficient level of generality in its standards and recommendations should not be a barrier to IOSCO's promotion of harmonised climate risk reporting and implementation of the TCFD recommendations. Furthermore, any acknowledgment of the TCFD recommendations, or climate risk disclosure standards developed by IOSCO, could include a statement (similar to that contained in the *Principles for Ongoing Disclosure*[78]) which recognises jurisdictional specificities while acknowledging the growing consensus on the importance of climate risk reporting and that the TCFD recommendations provide a framework for climate risk reporting that can be applied across jurisdictions.[79]

In light of the TCFD recommendations' inherently international focus (comparable to international financial reporting standards), the close working relationship between IOSCO and the FSB, and the expressly stated connection between the IOSCO Principles and the TCFD recommendations, it is surprising that IOSCO has not yet officially acknowledged the TCFD recommendations or incorporated climate risk reporting into its work streams.

6

Why do investors care more about these risks than reporting companies?

Including IOSCO engagement in the suite of investor stewardship activities will be particularly important for investors with portfolios spanning multiple jurisdictions. If investors want to see consistent climate risk reporting across these jurisdictions, there is no other organisation that occupies as favourable a position as IOSCO to achieve this.

One motivating factor for investors to support IOSCO action on harmonising climate disclosure is the overall impact of climate-related financial risks on portfolios e.g. the systemic risk that unabated climate change may have upon all investments through lower growth rates or climate-driven losses. Portfolio-level climate value at risk can be quantified and may extend over longer time horizons than typically considered in a company's materiality analysis. But these longer time horizons do align with the liability and investment horizon of pension funds and insurance companies.

Materiality determinations are typically left to management and the board, focusing on the financial impact on the company. Where the impacts of a particular risk fall entirely on a given company, that company is properly incentivized to disclose such risks. But where the impacts are more widely felt and extend beyond company boundaries, too little may be disclosed.

These wider considerations are driving investor interest in climate risk. As an example, investors with collectively over $30 trillion AUM have signed up to the Climate Action 100+ to demand that the world's most carbon-intensive companies 'take action to reduce greenhouse gas emissions across their value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2-degrees Celsius above pre-industrial levels'[80] among other things.

Many investors are now asking how company business models are consistent with climate related constraints. But individual companies may not share the same longer-term objectives and, if they deem climate impacts either unlikely or otherwise immaterial, choose to exclude a probing analysis from their disclosures.

This is where IOSCO member regulators have a role to play to ensure more transparent and efficient capital markets through better and harmonised climate risk disclosure. For investors, communicating the importance of these concerns to IOSCO and its member regulators is a key step to ensuring they have the right information to assess risk and allocate capital accordingly.

7

What can investors do?

As a membership organisation - with membership being comprised chiefly of national securities regulators - investors wanting to engage with IOSCO on harmonised climate risk disclosure and implementation of the TCFD recommendations have two options.

1

First, investors can engage their national securities regulator and request that the regulator use its position as an IOSCO member to influence the organisation. Investors are a key constituency for national regulators, which will have well established forums for investor engagement. These could be used by investors to activate national regulators to engage IOSCO. For example, investors could contact the national regulator representative[81] to IOSCO and seek further information regarding Committee 1's activities in relation to climate risk reporting. Investors could also ask the national regulator representative to push for Committee 1 to work towards one of the outputs identified in this paper.

2

Second, investors may wish to engage with IOSCO directly, for example, by requesting the Chair of Committee 1 to undertake one of the activities outlined above to incorporate the TCFD recommendations into an existing IOSCO work stream or to develop a new work stream on climate risk reporting more generally. The IOSCO Board is another key intervention point for investors because it is responsible for reviewing the regulatory issues facing international securities markets and setting the workplans for Policy Committees.[82]

Investors have a strong basis for demanding action from IOSCO. As the Economist Intelligence Unit has stated, 'any institution with a remit to promote financial stability or financial reporting standards or to address systemic financial risk has the responsibility… to address climate-related financial risk.'[83]

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