IOSCO STATEMENT

International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

STATEMENT ON DISCLOSURE OF ESG MATTERS BY ISSUERS

18 January 2019

The International Organization of Securities Commissions (*IOSCO*) is today publishing a statement setting out the importance for issuers of considering the inclusion of environmental, social and governance (*ESG*) matters when disclosing information material to investors' decisions.

The statement does not supersede existing laws, regulations, guidance or standards or relevant regulatory or supervisory frameworks in specific jurisdictions, or any IOSCO Principles[1].

I. Introduction

As underlined by IOSCO in its Objectives and Principles of Securities Regulation,[2] securities regulation has three key objectives: protecting investors, ensuring that markets are fair, efficient, and transparent, and reducing systemic risk. IOSCO Principle 16 states that issuers should provide "*full, accurate, and timely disclosure of financial results, risk, and other information which is material to investors' decisions.*" With regard to this Principle, IOSCO emphasizes that ESG matters, though sometimes characterized as non-financial, may have a material short-term and long-term impact on the business operations of the issuers as well as on risks and returns for investors and their investment and voting decisions.

II. Developments in the disclosure of ESG information

Disclosure of ESG information in the market has increased in recent years. Examples of ESG matters that issuers are disclosing include environmental factors related to sustainability and climate change, social factors including labor practices and diversity, and general governance-related factors that have a material impact on the issuer's business.

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[1] The U.S. Securities and Exchange Commission has not voted on the publication of this statement. The statement should not be viewed as an expression of the Commission's views or an endorsement by the Commission.

[2] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD561.pdf

IOSCO monitors and discusses current developments regarding disclosure of ESG information and the perspectives of different market participants, including investors, issuers, and other stakeholders.

Investor perspectives

Today, investors' interest in ESG disclosure is growing and some investors already significantly value ESG matters in their investment strategy. They highlight that such disclosures are necessary to supplement their investment and voting decisions. Such information includes how ESG matters affect the issuer's approach to long-term value creation, the nature of strategic and financial risks, and the way the issuer intends to manage them. They also ask issuers to report on the impacts (either potential or realized) resulting from ESG matters. ESG matters may represent material risks and opportunities to an issuer or may, under certain circumstances, pose serious threats to the sustained viability of an issuer.

At the same time, some investors have expressed the desire for enhanced reliability and comparability of ESG information and disclosures, in order to facilitate a more accurate assessment of risk and, accordingly, more informed investment decisions.

Issuer perspectives

IOSCO has observed that some issuers are increasingly disclosing ESG information, either on a voluntary basis or as a result of compulsory requirements at a local level. This trend has resulted in an increase in the overall level of disclosure of ESG information in some industries. However, IOSCO also observes that disclosure practices remain varied among issuers. The type of information disclosed, as well as the quality of information, may differ in and between markets, depending, for example and among other reasons, on the disclosure frameworks used, the disclosure requirements and definitions of materiality imposed by jurisdictions, or the materiality of specific ESG matters to a particular issuer.

Voluntary disclosure frameworks

There are various interest groups and private sector bodies that are active in the area of disclosures related to environment, carbon emissions, climate, social or governance related matters. They have developed various disclosure frameworks that issuers may consider on a voluntary basis when disclosing ESG information. Such frameworks often aim at facilitating and guiding the disclosure of ESG information and attempt to enhance the comparability of such disclosures for investors. Amongst the different frameworks available to issuers in the field of climate change are the disclosure recommendations and methodology developed by the industry-led Financial Stability Board's Task Force on Climate-Related Financial Disclosures (*TCFD*).[3] The TCFD has developed climate-related financial risk disclosure recommendations that may be used by companies to provide information to investors, lenders, insurers, and other stakeholders. The objective of this guidance is to facilitate more consistent disclosure practices and encourage firms to align their disclosures with investors' needs. Similarly, there are other reporting frameworks that have been developed to include ESG matters, including, but not

[3] The TCFD has been set up by the Financial Stability Board in 2015.

limited to, the Carbon Disclosure Project (*CDP*), the Global Reporting Initiative (*GRI*), and Integrated Reporting (*IR*).

III. The role of securities regulation and existing obligations

Securities regulations play an important role in protecting investors by facilitating transparency in the capital markets as underlined by the IOSCO Principles. Transparency is an essential condition for investors to be able to make informed investment and voting decisions. Investors need to understand the material risks, including those related to ESG matters, posed to an issuer's business and financial performance. Securities market regulators have a key role to play in reminding issuers to consider such risks and to disclose material ESG information to investors.

Jurisdictions' securities laws generally require that issuers disclose material risks and any other material information in the context of their business and performance which is also in line with IOSCO's Principle 16. As a general matter, in these jurisdictions, materiality is therefore the determining factor in considering whether information must be disclosed to investors in filings made under securities laws.

Jurisdictions are addressing the issue of ESG disclosure in the context of their own legal and regulatory regimes, and from their own policy perspectives on the importance of specific information being mandated or prescribed. These developments have, in certain cases, led to variations in requirements between jurisdictions. Some jurisdictions have issued guidance to issuers on the application of the materiality principle to ESG matters. Some jurisdictions also require specified disclosure of ESG information either on a mandatory basis or according to a comply-or-explain approach.

IV. Considerations for issuers

IOSCO encourages issuers to consider the materiality of ESG matters to their business and to assess risks and opportunities in light of their business strategy and risk assessment methodology. When ESG matters are considered to be material, issuers should disclose the impact or potential impact on their financial performance and value creation.

In doing so, issuers also are encouraged to give insight into the governance and oversight of ESG-related material risks. Issuers can provide such insight, for example, by disclosing the methodologies they follow in their risk assessment, and the steps taken, and/or action plans developed, to address the risks that they have identified. The information provided by issuers should be balanced and should consider and reflect both risks and opportunities presented by material ESG matters.

IOSCO reminds issuers that information disclosed outside of securities filings following a voluntary disclosure framework may also be required to be disclosed under security filings if it is material. Although some information is disclosed following a voluntary disclosure framework, that disclosure should not substitute for disclosure in regulatory filings, if material.

IOSCO furthermore encourages issuers to clearly disclose the framework(s) that they have used (if any) in preparing and disclosing material ESG information.

V. IOSCO's ongoing efforts

IOSCO is responding to these developments with ongoing discussions among its members about this important area. IOSCO is monitoring developments regarding the disclosure of ESG information, including private-sector initiatives that have promoted a voluntary framework. IOSCO will also continue to interact with different disclosure forums and task forces, issuers, and investor groups in order to be informed about the latest developments and their consequences, as well as to understand market participants' perspectives and expectations regarding disclosure of ESG information. IOSCO also recently established a Sustainable Finance Network of securities regulators to share their experiences and engage in focused discussions about developments in the market and across jurisdictions.