



The Bank of England response to the IFRS Foundation Consultation Paper on Sustainability Reporting, December 2020

The Bank of England ('the Bank') welcomes the opportunity to comment on the Consultation Paper (CP)¹ on Sustainability Reporting published by the International Financial Reporting Standards (IFRS) Foundation Trustees. The Bank and the other members of the UK Government-Regulator Taskforce have already published a joint statement of support for the proposals in the CP² and in this letter we re-iterate that support.

The Bank is responsible for maintaining monetary and financial stability in the United Kingdom. The Bank's Prudential Regulation Authority (PRA), which supervises around 1500 financial institutions³, has primary objectives to promote the safety and soundness of these firms and to avoid disorderly failure, as well as ensuring that policy holders are protected through sound financial management. Climate change is a strategic priority for the Bank⁴, as the physical and transition risks from climate change⁵ pose a threat to these core objectives. In our role as a central bank and regulator of one of the world's leading global financial centres, our goal is to build a UK financial system that is resilient to the risks from climate change⁶, and that can steward the real economy to an orderly transition to a net-zero emission economy (a neutral carbon footprint)⁷.

Such resiliency requires effective transparency and information from companies and governments on their strategies and progress to a net-zero emission economy. We strongly believe that having a global set of sustainability reporting standards is a key prerequisite in achieving the Bank and PRA's objectives and enabling decision making to be informed by complete, consistent and globally comparable climate risk disclosure. We believe the IFRS Foundation should endeavour to play a role in the setting of those global standards, and that the focus initially should be the climate-related financial disclosures most relevant to investors and other market participants. We believe it imperative for work to commence on those standards as soon as possible.

¹ IFRS Foundation Consultation Paper on Sustainability Reporting, September 2020,

<https://www.ifrs.org/projects/work-plan/sustainability-reporting/#published-documents>

² The Bank's joint statement in support of the IFRS Foundation's consultation on sustainability reporting,

<https://www.bankofengland.co.uk/news/2020/november/boes-joint-statement-in-support-of-ifrs-consultation>

³ Banks, building societies, credit unions, insurers and major investment firms.

⁴ Bank of England Annual Report, June 2020, <https://www.bankofengland.co.uk/annual-report/2020>

⁵ There is a third risk that is especially important for insurers, liability risk. Refer to SS3/19 for further information. <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss319>

⁶ Bank of England's Governor Andrew Bailey's speech given at the Corporation of London Green Horizon Summit, "The time to push ahead on tackling climate change", November 2020.

<https://www.bankofengland.co.uk/speech/2020/andrew-bailey-speech-corporation-of-london-green-horizon-summit>

⁷ Bank of England Executive Director Sarah Breeden's speech given at the UK Finance Webinar held during London Climate Action week, "Leading the change: climate action in the financial sector", July 2020.

<https://www.bankofengland.co.uk/speech/2020/sarah-breeden-leading-the-change-climate-action-in-the-financial-sector>



The Bank has considered selected questions posed by the CP.

Question 1. Is there a need for a global set of internationally recognised sustainability reporting standards?

(a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area?

(b) If not, what approach should be adopted?

Yes. We believe there is a need for a global set of internationally recognised sustainability reporting standards. Numerous sustainability reporting frameworks, standards and metrics currently exist. Whilst some, particularly the Taskforce for Climate Disclosures (TCFD), are more widely supported, the fact that TCFD is voluntary, and the quantity and quality of disclosures are not improving at a fast enough pace creates a risk of fragmentation globally as jurisdictions look to set their own standards. Over time, a lack of globally consistent and comparable requirements may make it more difficult to engage capital markets in smoothing the transition to a zero-carbon economy, and the growth in potentially piecemeal disclosure schemes may slow adoption. A global standard for sustainability reporting would reduce the complexity of approaches and objectives. Recognising the linkages between UK organisations and the global economy, including the large number of cross-border institutions that the PRA supervises, disclosures by firms operating in the UK need to be comparable, both domestically and globally in order to aid consistent decision-making by users of that information. However, the success of a global standard is contingent on its credibility and widespread adoption.

We believe the IFRS Foundation should endeavour to play a role in the setting of these global standards. The IFRS Foundation through the International Accounting Standards Board (IASB) has an existing track record in global standard setting, and has achieved the adoption IFRS standards in 144 jurisdictions around the world. The IFRS Foundation is well-placed to assume a leading role in establishing internationally-accepted standards that could be implemented widely.

Question 3. Do you have any comment or suggested additions on the requirements for success as listed in paragraph 31 (including on the requirements for achieving a sufficient level of funding and achieving the appropriate level of technical expertise)?

In addition to the requirements for success listed in paragraph 31 of the CP, we believe it imperative for the IFRS Foundation to commence the work as soon as possible, and be able to establish internationally-accepted standards on sustainability reporting in a timely way. Otherwise, there is increasing risk of continuing fragmentation which could be difficult and costly to overcome in the intervening years.



Question 5. How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?

The Bank encourages the IFRS Foundation to engage with progress made by existing initiatives, and seek to leverage these where possible in the development of a global sustainability standard. Specifically, we encourage the Foundation to explore how it can build upon the recommendations made by the TCFD which has gained the support from over 1000 organisations⁸. The Bank has supported the recommendations of the TCFD since publication, and in 2020, we published our own TCFD-aligned climate disclosure report⁹ for the first time. The Government-Regulator TCFD Taskforce in the UK has set out an indicative path towards mandatory TCFD-aligned climate-related disclosures across the UK economy in November 2020¹⁰. The IFRS Foundation should seek to harness the progress made under this initiative. By building upon the framework and recommendations as set out by the TCFD, the IFRS Foundation could avoid unnecessary fragmentation of disclosure approaches, and ensure that the progress made under existing approaches is maintained.

Climate change is a risk seen looking forwards and not backwards, therefore scenario analysis should be a key tool. We see the IFRS Foundation having a pivotal role, building on reference scenarios such as those produced by the Network for Greening the Financial System (NGFS)¹¹, to support the development of consistent and comparable disclosure information.

Question 7. If the IFRS Foundation were to establish an SSB, should it initially develop climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting?

Yes. Sustainability is important to society and the Bank. But to develop a global set of standards that cover each and every aspect would undoubtedly be a complex and time-consuming challenge. A focus on climate-related financial disclosures would mean the project scope is more defined, and the project is likely to progress at a faster pace. The Bank, in a similar vein, has prioritised climate-related disclosures as part of its broader climate work program, including its approach to micro prudential supervision.

⁸ TCFD press release 'More than 1000 global organizations declare support for the Task Force on Climate-related Financial Disclosures and its recommendations', February 2020. https://www.fsb-tcf.org/wp-content/uploads/2020/02/PR-TCFD-1000-Supporters_FINAL.pdf.

⁹ The Bank of England's climate related financial disclosure 2020, June 2020. <https://www.bankofengland.co.uk/-/media/boe/files/annual-report/2020/climate-related-financial-disclosure-report-2019-20.pdf?hash=5DA959C54540287A2E90C823807E089055E6721B&la=en>

¹⁰ UK joint regulator and government TCFD Taskforce: Interim Report and Roadmap, November 2020, <https://www.gov.uk/government/publications/uk-joint-regulator-and-government-tcf-taskforce-interim-report-and-roadmap>

¹¹ NGFS Climate Scenarios for central banks and supervisors, June 2020, https://www.ngfs.net/sites/default/files/medias/documents/820184_ngfs_scenarios_final_version_v6.pdf



Question 9. Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?

Yes. We think the focus initially should be on climate-related disclosures most relevant to investors and other market participants. In our view it is that type of climate-related disclosure that will best help in building a UK financial system that is resilient in the face of the challenges posed by risks from climate change, and thereby steward the real economy to an orderly transition to a net-zero emissions.

Question 10. Should the sustainability information to be disclosed be auditable or subject to external assurance? If not, what different types of assurance would be acceptable for the information disclosed to be reliable and decision-useful?

Yes. We believe that the sustainability information to be disclosed should ultimately be auditable or subject to external assurance, but we believe that this should be a long-term objective. User confidence will be important to the success of any climate-related disclosures, and audit and other external assurance from sustainability experts can be significant contributors to this confidence.

However, we note that the development of capabilities to provide such assurance may take longer than defining the standards themselves. We consider the priority to be the rapid development of comparable and consistently measured sustainability disclosure information. In achieving this, the IFRS Foundation should be mindful of whether new sustainability standards create the conditions for audit to add value, and should leverage its relationships with the International Auditing and Assurance Standards Board (IAASB) and the audit profession. However, an objective of auditability at the outset should not delay the development of global sustainability standards.