Guernsey Financial Services Commission

Discussion Paper

The Future of Sustainability Reporting in the Bailiwick of Guernsey

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Foreword

Addressing the global environmental sustainability crisis is a key challenge of our age, and how well we address it will be the measure of not just the current generation but also the next to come.

International capital markets will play a crucial role in finding the solution to this challenge. Private sector investors will provide the majority of the capital needed to support the vital global effort to reverse the decline in nature and restrict the emission of environmentally damaging gases. As an established and trusted international financial centre, the Bailiwick of Guernsey will play its proper part in supporting this vital international effort and meeting the expectations of our international investors and business partners.

Engaging with the issues raised in this Discussion Paper will help to ensure that investors receive the information on sustainability risks and opportunities they need; allowing them to invest with confidence. The Bailiwick remains steadfastly committed to meeting international standards without undue bureaucracy, allowing markets to function efficiently and fairly. Agreeing the right approach for the Bailiwick in meeting new international sustainability reporting and governance standards will contribute to the ongoing strength of this jurisdiction's financial sector and, ultimately, I very much hope, fulfil our responsibility to bequeath a healthy and prosperous Earth to generations to come.

Deputy Lyndon Trott
President of the Policy & Resources Committee

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Who might benefit from reading this paper?

This discussion paper is a public document and feedback is welcomed from any interested stakeholder. Some questions are aimed at gathering information and views particularly from the Bailiwick's regulated financial services sector.

How to respond

Responses to this Discussion Paper are sought by 25 October 2024.

Feedback may be provided via the Consultation Hub section of the Commission's website (www.gfsc.gg).

Introduction

The purpose of this Discussion Paper

This Discussion Paper, as trailed in the response to feedback on the Natural Capital Fund, is the next important step by the Commission in addressing the role of the Bailiwick's finance industry in meeting the challenges presented by sustainability and climate change risks. This paper should be considered in tandem with the States of Guernsey Sustainable Guernsey: Implementation of Guernsey's Climate Change Policy, published in June 2024.[1]

The issues of sustainability, including climate change, are complex however it is clear that all areas of business and civil society are impacted and have a role to play. This paper is intended to enable the Commission, in discussion with the finance industry, to explore the next steps that the Bailiwick of Guernsey can take to meet the challenges.

The last few years have seen, internationally, many fast-moving developments as the issues relating to sustainability have become clearer. Today, however, uncertainty remains around the pace and scope of global adoption in this area as different regions and nations go through political change.

In the Bailiwick the Commission has already taken important steps in this space including the launch in 2018 of the Guernsey Green Fund regime, a world first, and then in 2022 the Natural Capital Fund regime.

This discussion paper provides a summary of recent international developments in the area of sustainability reporting, including the work of the International Sustainability Standards Board (ISSB). The paper seeks to gather information and views from the finance sector on the potential impact of the introduction of the standards that have been issued by the ISSB.

The paper also seeks views on additional steps which might be taken to enhance licensees' sustainability risk governance and management.

[1] Sustainable Guernsey: Implementation of Guernsey's Climate Change Policy - States of Guernsey (gov.gg)

Background

Where have international standards of sustainability reporting reached?

A number of standards aimed at protecting the environment have developed over the last 15 or so years. Some of the early standards were either industry led or a mix of industry and other interested groups. A speech by Mark Carney, the then Governor of the Bank of England, in September 2015 was often seen as a pivotal moment in raising awareness about the potential impact of climate change and the need for a concerted and consistent approach across sectors and industries.

In 2015, the Task Force on Climate-Related Finance Disclosures (TCFD) was set up by the G20 Nations under the auspices of the Financial Stability Board (FSB). This was the first substantive and real attempt to standardise worldwide climate-related finance disclosures. TCFD was primarily focused towards G20 businesses that were either issuing equity or holding public debt.

In 2017, TCFD recommendations were released for reporting by Corporates and Financial Institutions based around four key elements: Governance, Strategy, Risk Management and Key Metrics. These were supplemented by 11 supporting disclosures to be applied as appropriate depending on the sector. (The application of TCFD to Financial Services businesses is explained in TCFD Guidance.[2])

The Taskforce, having achieved its goals and taken the first crucial steps on sustainability reporting, disbanded in October 2023. The baton was formally passed to the International Sustainability Standards Board (ISSB) – an independent body within the International Financial Reporting Standard Foundation, the body which oversaw the implementation of global accounting standards and which continues to police them.

The ISSB has evolved the TCFD recommendations and developed two standards which were released in June 2023 and made available to be used from January 2024:

- S1 concerns general requirements for the disclosure of sustainability-related financial information. Sustainability reporting as opposed to climate-related reporting is new although it draws on established methodologies and seeks to get companies to report risks and opportunities that will present over the short, medium and long term. It includes matters such as considering bio-diversity.

[2] https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf

- S2 addresses climate-related disclosures and is consistent with the core TCFD recommendations. It seeks disclosure of cross-industry and industry-specific risks.

Whereas TCFD was targeted at climate reporting alone, the ISSB has introduced the wider concept of sustainability reporting. Both standards again look at the key areas of Governance, Strategy, Risk Management and Metrics however they now sit within a more detailed framework. On the next page the high-level objectives and scope of the standards are set out.

As will be seen, much of the focus of the standards is on meeting the needs of investors and companies are asked by the standards to disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect its prospects. The definition of material information is aligned with that used in the accounting standards, information is material if admitting, obscuring or misstating it could be reasonably expected to influence investor decisions.

The standards are supported by significant guidance, much of which began life as part of earlier standards. The ISSB has adopted much of that guidance to sit alongside its standards and the TCFD recommendations are also fully incorporated into them. The International Financial Reporting Standards Foundation (IFRS Foundation) has developed a knowledge hub on the standards which can be accessed here: IFRS - IFRS Sustainability knowledge hub[3]

In May 2024, the IFRS Foundation issued guidance[4] on jurisdictional adoption of the ISSB Standards. This guidance will facilitate jurisdictions' progress towards the adoption of ISSB Standards and will be used to inform, summarise and provide transparency to capital markets, regulators, other relevant authorities and other stakeholders on each jurisdiction's progress towards adoption.

The ISSB standards are silent on the need for assurance, this is left for individual jurisdictions and their regulators to decide on, albeit the ISSB has been careful to design the standards so that they are capable of assurance. The International Auditing and Assurance Standards Board is currently working towards an International Standard on Sustainability Assurance Engagements which will be applicable to the ISSB Standards[5].

[3] https://www.ifrs.org/sustainability/knowledge-hub/
[4] https://www.ifrs.org/content/dam/ifrs/supporting-implementation/adoption-guide/inaugural-jurisdictional-guide.pdf
[5] Understanding International Standard on Sustainability Assurance 5000 | IAASB

Figure 1: The high-level objectives and scope of IFRS S1 and S2

IFRS Standard 1 (S1)
The objective of IFRS S1 is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.
The standard requires disclosure of information that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term in respect of the sustainability related risks and opportunities that could reasonably be expected to affect the entity's prospects.
The Standard also prescribes how an entity prepares and reports its sustainability-related disclosures. It sets out general requirements for the content and presentation of those disclosures so that the information disclosed is useful to primary users in making decisions relating to providing resources to the entity.

IFRS Standard 2 (S2)
The objective of IFRS S2 is to require an entity to disclose information about its climate related risks and opportunities that is useful to the primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.
The standard requires disclosure of information that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term in respect of climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects.
The standard applies to o climate related risks to which the entity is exposed which are: ▪ climate-related physical risks; and ▪ climate-related transition risks o climate-related opportunities available to the entity.

Why is sustainability reporting important?

It is clear that the world faces a significant challenge if it is to meet the targets set in the Paris Agreement (extended to Guernsey by the States in 2023) to limit the increase in average temperatures to 1.5C above pre-industrial levels. The global finance industry has a significant part to play in delivering against the Paris target, as economies seek to de-carbonise, reduce their emissions, and use existing and emerging technologies in the effort to reduce global warming. This all takes capital.

Transparent sustainability reporting around climate change is important because, as the Bank of International Settlements eloquently put it in their paper entitled "The Green Swan"[6] there is a:

"Growing realisation that climate change is a growing source of financial (and price) instability"

Reliable sustainability reporting will provide market participants with the necessary information to properly understand the impact of these risks and allow markets to function efficiently.

Sustainability reporting also covers wider risks and opportunities beyond climate change and includes, for example, the impact of the accelerating deterioration of biodiversity globally, which is impacting the vital ecosystem services on which business and society depend, and which provide the foundation for every economy. In December 2022, governments from around the world committed to ambitious goals and targets under the Kunming-Montreal Global Biodiversity Framework (GBF) to halt and reverse nature loss by 2030. Target 15 of the GBF calls for businesses to monitor, assess and transparently disclose their risks, dependencies and impacts on biodiversity, to ensure business, society and nature exist in harmony.

The risks and opportunities presented by biodiversity loss can reasonably be expected to affect a company's prospects and might result in material information for investors. A company applying IFRS S1 is already required to disclose relevant biodiversity-related risks and opportunities as part of the general disclosure requirement and the ISSB plans to further research the development of specific requirements in this area.

It is important that investors, asset managers and lenders can make informed decisions. The data that is available to inform this needs to be accurate, coherent, consistent, transparent, and capable of comparison with other possible investments. The challenge is global, and many people and organisations advocate for jurisdictions working towards adopting the same standard so as to ensure that consistent data is available.

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[6] bis.org/publ/othp31.pdf

Information is required to allow those taking decisions to understand both environmental benefits and risks. In the context of investments into sustainable projects this is increasingly important as every deployment of capital represents an opportunity cost of not using that capital on a different project elsewhere.

Finally, the process of analysing both strategy and risk for reporting purposes also provides firms with a tool that will help them identify any assets that might become unusable, sometimes now referred to as "stranded assets".

What does this mean for me?

The global move towards more detailed sustainability reporting will impact the Bailiwick.

We are very likely to see an increased focus in all parts of the value chain to identify sustainability risks and opportunities.

Firms will need to develop and be ready to explain their approach to sustainability and climate change to others in the value chain, where they have not already begun to do so.

The direction of travel internationally is clear, and it is not just a technocratic change set by international bodies, much is driven by large companies responding to market and consumer demand. Some Bailiwick firms are already engaged in exploring the opportunities in sustainable finance. Equally those firms that see this as simply another compliance headache may find themselves caught out, even cut out, by pressures brought about by the demands of the market as much as by legally binding implementation of the standards.

All participants are encouraged to consider the various global proposals and consider and feedback to us which parts the Bailiwick should adopt and the timescale for such adoption.

What are other jurisdictions doing?

The United Kingdom adopted TCFD in April 2022. The Financial Conduct Authority then issued the Sustainability Disclosure Requirements (SDRs) in November 2023. The SDRs apply to UK domiciled funds and are progressively coming in to force during 2024, the first aspect being an anti-greenwashing rule effective from 31st May. The SDRs will also introduce "Product Labels" and other requirements relating to Sustainable Investment Products and are designed to improve transparency.

The Department for Business and Trade is currently giving consideration to the adoption of the ISSB standards, this will now be a matter for the new Labour government to consider. The FCA has announced that it will look to consult thereafter on moving from TCFD to the ISSB standards, in respect of listed companies, in 2025. At the same time, it will also look to consult on Transition Plan Disclosures.

The European Union has developed its own framework. This began in 2017 with the Non-Financial Reporting Directive applying principles of Environmental, Social and Governance ("ESG") reporting to large "public interest entities"; since 2024 it also applies to medium sized and smaller entities.

The EU Action Plan on Financing Sustainable Growth introduced the Sustainable Finance Disclosure Regulation (SFDR) via a two-stage process with part one in March 2021 followed by detailed technical standards in January 2023.

SFDR introduces obligations for asset managers and other financial markets participants. SFDR sets out how financial market participants have to disclose sustainability information. It is considered by some to be more data heavy in its requirements and, unlike other standards, in some cases it requires limited third-party verification. SFDR is currently under review by the European Securities and Markets Authority.

In March 2024, the United States Securities and Exchange Commission (SEC) introduced rules requiring climate change related information to be filed with it by public companies. The decision was not without some controversy, it attracted 24,000 comments and was pared back as a result. One of the key changes made was the removal of reporting requirements for scope 3 greenhouse gas (GHG) emissions (GHG gases are discussed further on page 13).

Nevertheless, since the issue of the rules a number of legal challenges have been made. These have been consolidated before the US Court of Appeals, Eighth Circuit in St Louis, Missouri. In April, the SEC took the decision to suspend the effect of the rules pending the conclusion of the Court proceedings.

Both the Jersey Government and the Jersey Financial Services Commission have issued consultation documents on Green Finance matters.

The whole issue of sustainability and climate reporting is both complex and fast-moving. This year is a bumper year globally in terms of elections. As a result, looking beyond the jurisdictions mentioned above would not be helpful and it is highly likely that, even for some of those, the position could have changed before the feedback on responses to this Paper have been published, either through the ballot box or court judgments.

The above said, it is important to progress discussion of the issues and recognise three clear factors:

- First that reporting, in some form or other will continue, most likely for now as a minimum in line with the approach set out by the TCFD, before its functions were transferred to the ISSB.
- Second, that reporting is designed to improve information to market participants thereby both:
    - meeting market needs (providing investors and market participants with data to understand risks and opportunities, thus ensuring markets are fair, efficient and transparent); and
    - helping to address the pernicious activity of greenwashing.
- Third, given the weight of environmental reporting already on the statute book (for example the European Green Deal of the last European Commission[7]) the private sector is driving engagement on reporting issues as it adapts to its new statutory obligations in many larger countries and economic blocs.

[7] https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en

What steps has the Commission already taken?

1. In 2018, the Guernsey Green Fund regime was launched.

2. In December 2020, a green insurance capital regime for life insurers was introduced, making Guernsey the world's first regulator to introduce a specific green insurance capital regime.

3. In June 2021, the Commission amended the Code of Corporate Governance and introduced a requirement that Boards consider the impact of climate change on their strategy and risk profile, and where they consider it appropriate, make climate change related disclosures. In publishing the amendment, the Commission signalled that it was encouraging Boards to prepare for a future in which Green consideration and Green disclosure are likely to become an important part of international standards for financial services firms, and that the changes introduced were designed to encourage timely preparation and action without materially increasing firms administrative burdens.

4. Since 2021, the Commission has published a Sustainability Report as part of its Annual Report.

5. In May 2022, a consultation paper was issued on proposed measures to counter the risk of greenwashing. Guidance was issued for the Funds and Investment Sector in September 2022.

6. In 2022, the Natural Capital Fund regime was launched.

7. The Commission is engaged in a number of important international initiatives, it is a member of the Central Banks and Supervisors Network for Greening the Financial System (NGFS), United Nations Financial Centres for Sustainability, the TCFD Forum and the Sustainable Insurance Forum.

GUERNSEY GREEN FUND

Natural Capital Fund
Guernsey Sustainable Funds

Greenhouse gas emissions – the protocol

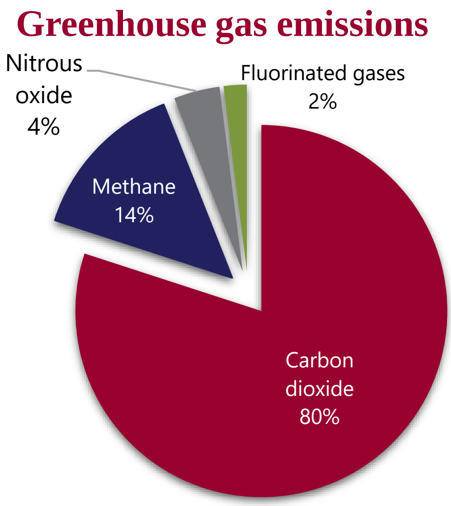
A greenhouse gas is one that acts by trapping and re-radiating energy which otherwise would be radiated direct to space. The most commonly spoken about gas is Carbon Dioxide (CO_2), there are others, principally Methane (CH_4), Nitrous Oxide (N_2O) and Ozone (O_3), in addition there are various other gases including fluorinated gases, the seven gases are set out in figure 2. Water vapour is also a greenhouse gas but its presence in the atmosphere is always changing.

Figure 2: Seven gases mandated under the Kyoto Protocol

GHG covered are the seven gases mandated under the Kyoto Protocol
Carbon dioxide (CO_2)
Methane (CH_4)
Nitrous oxide N_2O
Hydrofluorocarbons (HFCs)
Perfluorocarbons (PFCs)
Sulphur hexafluoride (SF)
Nitrogen trifluoride (NF_3)

Source: PCAF, 2021

Figure 3: Greenhouse gas emissions

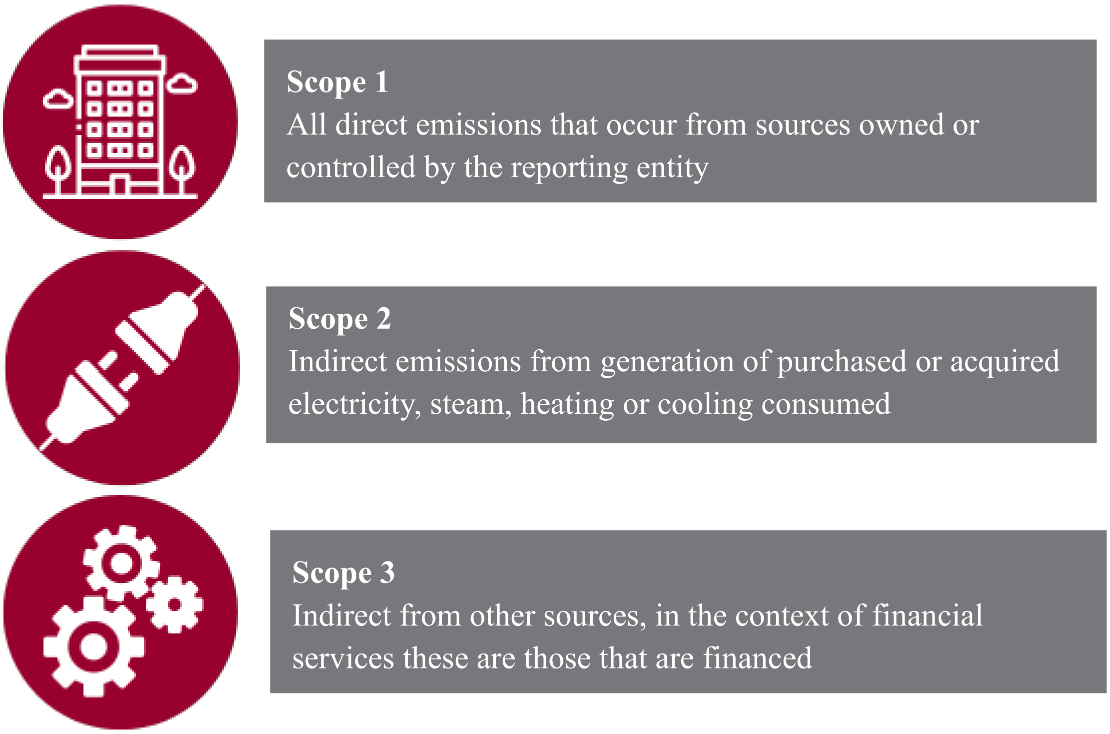


Source: [2020 UK Greenhouse Gas Emissions, Final Figures (publishing.service.gov.uk)]

Each of the gases absorbs energy at different rates to each other, for example Methane absorbs at 23 times that of CO_2 and Nitrous Oxide at 296 times. In order to compare the effects of each gas they are converted into CO_2 equivalents (written as CO_2e).

The Green House Gas Protocol is an initiative of a multi-stakeholder partnership convened by the World Resources Institute (an American Non-Governmental Organisation) and the World Business Council for Sustainable Development, a Geneva based coalition of International Companies. In 2001, the first edition of its Corporate Accounting and Reporting Standard was released, it was revised in 2004. The standard defines three different categories of emissions: Scope 1 being direct emissions, and Scope 2 and 3 being indirect emissions. These are illustrated in the figure on the following page.

Figure 4: The three categories of emissions



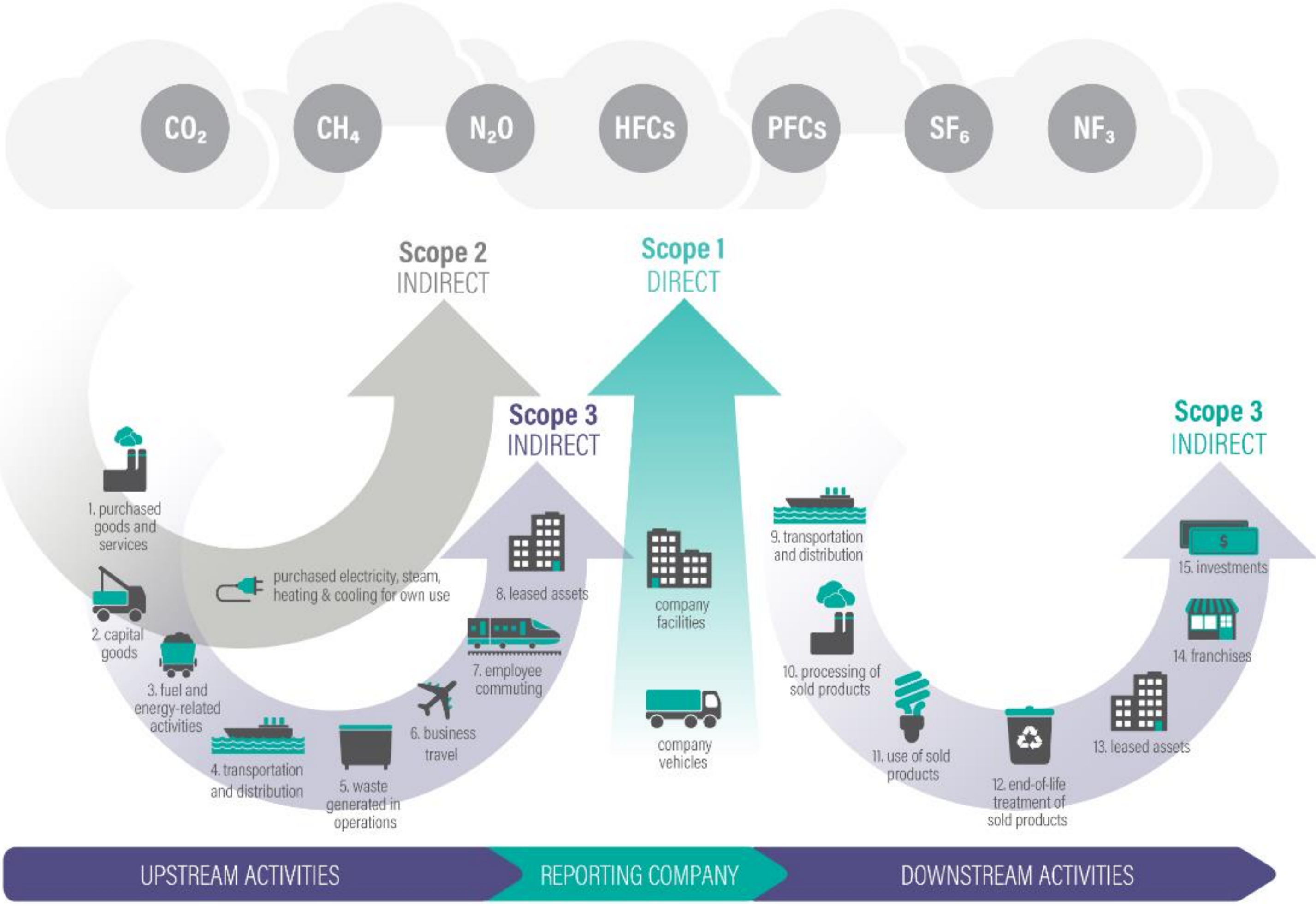
The purpose of measuring Scope 3 emissions is so that companies can understand their whole value chain emissions impact with a view to being able to identify risks as well as opportunities to reduce them over time. It is important to recognise that where higher emissions are seen these could indicate that those assets, investments or loans are more susceptible to risks associated with technological change, shifts in supply and demand or policy changes. Measuring Scope 3 emissions is harder than measuring Scope 1 and 2 emissions, and in 2011, a further Scope 3 Standard[8] was developed to supplement the Corporate Accounting and Reporting Standard.

To determine Scope 3 emissions, it can be necessary to look in granular detail, at each individual arrangement. This requires an analysis of the nature of an asset and how it is held. In turn the asset then needs to be considered against supporting guidance and the minimum requirements of the Green House Gas Protocol. This is a developing area and software tools are being developed which can help address the consequent reporting obligations, see page 22 below.

One of the purposes of reporting Scope 3 emissions is that they can provide a yardstick against which to judge how, one firm as against another, is addressing the amount of carbon in its value chain. They have also been described as potentially indicative of areas where there could be an exposure to risk requiring change or intervention. By contrast in some countries, challenges are being made to the requirements to report Scope 3, as Scope 3 is seen as double counting and is consequently regarded as an unhelpful figure.

[8] https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporing-Standard_041613_2.pdf

Figure 5: Diagram of scopes and emissions across the value chain



Source: GHG Protocol's [Technical Guidance for Calculating Scope 3 Emissions](), page 6

Transition Plan Taskforce

In 2021, at COP 26 in Glasgow the creation of the Transition Plan Taskforce was announced. As businesses begin to report and identify issues that they individually face they will need to differing degrees to pivot their business towards more sustainable methods. As identified above these will likely involve difficult decisions, each with an opportunity cost.

In recognition of this a gap was identified which the Taskforce is intended to fill. The terms of reference are to establish best practice for setting up firm-level transition plans. Most changes that businesses need to make will require finance and to be able to secure, credible plans are needed.

The Taskforce began work in 2022 and has since then produced a number of important documents including a disclosure framework in October 2023.[9]

[9] https://transitiontaskforce.net/wp-content/uploads/2023/10/TPT_Disclosure-framework-2023.pdf

Bailiwick of Guernsey

The Commission's strategic thoughts

The Bailiwick of Guernsey is both a leading international finance centre and a group of islands. It is therefore not just engaged but directly invested in sustainability and climate change.

As should be clear from the background part of this paper there are significant and continuing steps internationally to develop formal reporting which began with collation of existing efforts into the TCFD now followed by the ISSB standard. This activity and the development of regulatory international standards suggests to the Commission that it is important that Guernsey consider how best to conform itself to what may become the "new normal" in terms of global sustainability expectations. The question this paper considers is how the Bailiwick might think about doing so.

As is clear, different countries are at different stages on the route to the adoption of the standards but most are moving towards it. Whichever standard you consider there are common features, they all address to differing degrees Governance, Strategy, Risk Management and, of course, Metrics and Targets.

Figure 6: The four pillars of sustainability reporting

The funds sector has been at the forefront of this work. This is in part because of the leading role adopted by the International Organization of Securities Commissions (IOSCO) in developing guidance and approaches to implementation. But it is also because of the nature of the investment sector and its need to satisfy the increasing demands of investors for access to information. That is not to say that other sectors are not also making progress. For the banking sector, the Basel committee issued a consultation at the end of 2023[10], seeking views on the development of its own pillar 3 framework for climate risks to complement the ISSB approach, but recognised this would be an iterative process. IAIS, the global insurance standard setting body is similarly carrying out work to consider how to incorporate climate risk reporting within its own framework (the Insurance Core Principles).

Like TCFD the ISSB standards are advisory, and it is for individual jurisdictions to decide how to adopt them. The standards are backed by the G20, the International Organisation of Securities Commission (IOSCO), the Financial Stability Board and over 40 other jurisdictions. In adopting the standards, IOSCO said:

> *IOSCO now calls on its 130 member jurisdictions, regulating more than 95% of the world's financial markets, to consider ways in which they might adopt, apply or otherwise be informed by the ISSB Standards within the context of their jurisdictional arrangements, in a way that promotes consistent and comparable climate-related and other sustainability-related disclosures for investors.*

The Bailiwick, given its large investment sector and that sector's dependence on international clients and investment opportunities, has always chosen to implement relevant IOSCO regulatory standards. The IFRS has announced a plan to release Jurisdictional Guides and has published features against which it will describe a jurisdiction's approach to meeting the ISSB obligations. Whilst we are still in the foothills of global adoption of ISSB, not taking ISSB seriously is likely to be noted and to have a negative impact on a jurisdiction's credibility with other actors, especially multi-national corporates subject to home jurisdiction pressure to move towards net-zero carbon emissions.

The Commission recognises that these international developments will present challenges. Across the finance industry some firms are already engaged in these issues, or with existing reporting obligations, whereas to many this is still new territory.

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[10] Press release: Basel Committee consults on a disclosure framework for climate-related financial risk (bis.org)

Discussion Paper questions

In considering a move to sustainable reporting Guernsey needs to adopt a proportionate approach. This means applying international standards consistent with peer international finance centres, applying the regime only to those entities that need to report but also allowing those entities that choose to report voluntarily to do so. The Bailiwick is unlikely to apply a regime requiring standards beyond the scope or scale of that adopted by our international peers. Applying a regime with great administrative burdens will not serve the jurisdiction well, nor the cause of environmental protection, nor will imposing vast data set requirements. The Commission thinks that, at this stage, asking for too many data points will add to fixed costs and divert limited resources from considering how business can best fulfil sustainability goals.

We advance the proposition for discussion that being good for the Bailiwick looks like:

- being recognised internationally as a centre for sustainable finance;
- applying international standards proportionately and consistently with reputable peer jurisdictions;
- being involved in raising and providing capital for local, regional and global projects supporting the transition to low carbon economies; and
- being a venue that enables investors to make informed choices.

Q1. What do you think about the proposition for what good looks like for the Bailiwick?

As described earlier the global approach to sustainability disclosures has evolved rapidly and with some diversity in approaches taken.

The Commission supports the objectives of the ISSB in ensuring market participants are reliably and consistently informed of sustainability risks and opportunities. The setting of global baseline standards is a positive step to converge disclosure requirements across international markets but each jurisdiction must determine for itself whether, how and when to implement these standards. It is likely that, similar to International Financial Reporting Standards (IFRS), reporting based on ISSB standards will, over time, become broadly used and accepted, but, also like under IFRS, there may be certain variations internationally in terms of scope and timing of application, and the manner and extent of compliance depending on the nature of the reporting entity.

As an international financial centre, it is important that the Bailiwick considers how the global ISSB standards will impact our finance sector to ensure that we are properly positioned to meet this emerging challenge. In this respect, the Commission is keen to understand the views of the regulated sector on this issue, while at the same time recognising that the impact of the standards goes beyond the regulated sector and that local implementation of ISSB standards need not necessarily involve only the setting of regulatory standards by the Commission.

Q2. Do you consider that the Bailiwick should develop an action plan to identify and address the potential impact of ISSB standards?

The Commission recognises that some businesses (likely international) may already be subject to either an in-house reporting regime or are already reporting or working towards compliance with TCFD disclosures or other standards.

Q3. Please share details of any existing sustainability reporting your business may already be subject to or working towards?

Irrespective of local adoption of ISSB standards, it is likely that certain firms may already plan to report against ISSB standards owing to requirements of the parent group, customers, investors or other cross-border counterparts.

Q4. Does your firm expect to report against ISSB standards (or provide data for customers who will report against these standards) in the future, irrespective of formal adoption in the Bailiwick? If so, what will be the key driver behind this, when is it anticipated that such reporting would commence?

Q5. Do you consider that there are any impediments (legal, regulatory or otherwise) within the Bailiwick's current infrastructure to voluntary disclosure under the ISSB standards?

The IFRS has issued guidance[11] on implementation of the ISSB standards which identifies "publicly accountable entities" as the initial target of sustainability-related disclosure requirements, defined thus:

> "*(a) entities whose securities are traded in a public market or entities in the process of issuing securities for trading in a public market (sometimes called listed entities or public entities); and*
> *(b) entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses (for example, banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks) and have a significant weight in the jurisdiction, regardless of their ownership structure or listed status*."

Only a small number of Bailiwick entities are likely to be considered publicly traded entities falling within category (a) above. There is also an argument that to a large extent, owing to the institutional and private wealth focus of the jurisdiction's financial services industry that the application of the definition under part (b) may also be limited (for example mandatory disclosure requirements may not be appropriate for private wealth vehicles or captive insurers).

In the case of banks or insurers which form part of larger groups, we expect that reporting and disclosure will be driven by the requirements in the home jurisdiction, and that the local entities would contribute to the global reporting and disclosure requirements of their groups (rather than provide specific detailed reporting limited to the Bailiwick). It would be helpful to understand to what extent firms are already engaged in such reporting and how (or whether) local contributions are identified within the context of overall reporting. It would also be helpful to understand the extent to which potential reporting entities consider that there would be additional value to separate reporting and what impact that would have on the costs and extent of overall disclosure reporting.

[11] inaugural-jurisdictional-guide.pdf (ifrs.org)

Q6. Which industry sector, sub-sector or types of entity present in the Bailiwick, if any, do you believe should be regarded as publicly accountable entities, which should be subject to disclosure requirements consistent with ISSB standards? Please could you explain the reasoning behind your answer.

The Commission considers it likely that there may be growing pressure for internationally active investment funds to undertake some sustainability reporting.

Q 7. How relevant do you feel the ISSB standards are likely to be to those running regulated investment funds, both closed and open ended? If you don't think they are relevant, is that because, for example, another set of standards (e.g. EU SFDR standards) is likely to become the global norm or because you think it is premature to consider imposing standards in the funds area at this time? Please could you explain the reasoning behind your answer.

Jurisdictions may take varying approaches to the extent and timing of adoption of ISSB standards. Under ISSB S1 and S2 there are several transitional reliefs that are available in the first year of reporting. One of these is described as "climate-first" reporting whereby only climate-related risks and opportunities (in accordance with S2) need be reported under S1 the first year of reporting. It may be possible to extend such relief to apply to reporting years beyond the first reporting year, but such jurisdictional modification to adoption could be viewed as a failure to fully adopt the international standard. Moreover, the more the local requirement diverges from the international standard the greater the challenge presented to users of this information in understanding and comparing disclosures across jurisdictions.

Q8. To the extent that the Bailiwick seeks to apply S1 and S2 reporting requirements, should the jurisdiction aim to fully adopt these requirements or remain open to the use of jurisdictional modifications?

As set out above climate change emissions are broken down into Scope 1, 2 and 3. The ISSB requirements are to measure and report on all three Scopes. In relation to Scope 3 these calculations can require a more granular and detailed analysis throughout the underlying value chain. The ISSB itself recognises that Scope 3 emissions are more complex to calculate and has delayed the requirement (using another transitional relief) to start reporting these until the second annual reporting period.

The Commission is mindful in the short term of the need for balance whilst the extent of Scope 3 reporting is refined. More importantly it is concerned that there is a danger that the process could simply be seen as a maths problem for the compliance department. This risks distracting from the actual sustainability issues connected to a firm's business model.

Q9. If ISSB S2 consistent disclosure requirements are introduced in the Bailiwick, to what extent do you think firms should be required to report on Scope 3 emissions? If you think it should become compulsory, what timescale would you advocate for adoption?

In order to effectively identify, measure, report and address sustainability risks it is necessary to have proper metrics, targets and accurate data. A substantial amount of data will be required whichever of the standards are ultimately adopted. The Commission recognises that early data sets are, however, as yet unrefined. Given the fundamental importance of this underlying data, consideration should be given to starting to collect this data now. The Commission also, however, recognises the need to be proportionate in the early years and is mindful of the adverse costs which a sudden requirement to collect data would create. Further the Commission remains firmly of the view that for now an excessive reliance on provisional data may lead to inaccurate reporting and poor decision making.

The Commission has been considering the extent to which software packages that are now becoming available in the market can be used to address the questions of data collection, especially around value chain reporting. Whilst much has been said about artificial intelligence the Commission understands that it is too soon for that level of engagement to fully automate data collection but would welcome suggestions about how it could accommodate future and likely AI use cases in any framework for environmental reporting.

Q10. What sustainability data, if any, are you gathering internally?

Q11. Do you believe that environmental reporting technologies currently available are sufficiently developed to support ISSB S1 and S2 reporting requirements? If so, please share examples.

Q12. How might the Commission best enable the use of simplifying and burden reduction technologies in any new sustainability reporting requirements it may develop to help the Bailiwick meet ISSB Standards?

Greenwashing

No document on sustainability and climate reporting can be written without addressing the related issue of greenwashing. Greenwashing can mean different things to different people. At its most strategic, sustainability reporting is about ensuring transparency whilst greenwashing is the antithesis of this, a mechanism used to obscure and defeat.

In 2022 the Commission consulted on anti-greenwashing measures. These were specific to the investment sector however it also raised broader questions for the whole industry. The Commission has been clear from day one that the Bailiwick should not tolerate greenwashing.

Greenwashing can arise in a number of ways, intentionally, recklessly and sometimes even innocently. At a product level greenwashing is generally seen as the practice of misrepresenting sustainability-related practices or the sustainability related features of investment products. At the service delivery level where many Guernsey firms operate it can arise as a result from a failure to understand or interrogate the offering or service that is to be provided. As more sustainable products and services emerge firms need to become alert, professionally sceptical even of the product or service they are delivering.

Greenwashing is an increasing risk and has many effects:

- it undermines the sustainable finance sector and genuine environmentally sustainable products;
- it diverts capital that was to be used to combat climate change and reduce environmental harm; and/or
- it increases reputational risk for the firm and the Bailiwick.

The Commission, in response to its 2022 greenwashing consultation, issued Guidance to all Collective Investment Schemes and those responsible for preparing prospectuses to ensure that claims that a scheme and its underlying assets are environmentally sustainable are not misleading. The Commission also, at the same time, issued new anti-greenwashing guidance in the Conduct of Business Rules for Investment licensees responsible for promotion and advertising of investments.

It is worth recalling that regardless of specific provisions, all licensees have on an ongoing basis, a duty to meet the requirements of the minimum criteria for licensing. These include a duty to act with probity, competence, experience and soundness of judgment which Commission consider encompasses not engaging in or otherwise knowingly facilitating greenwashing. This duty, of course, applies when taking on new clients.

General anti-greenwashing rule

The Commission could give consideration to the introduction of a general anti-greenwashing rule applicable to all licensees. To date the Commission has only issued guidance for firms, in respect of general disclosure and marketing rules, covered by the Protection of Investors Law. The last few years have seen a growth in the number of sustainability and climate change products, and legal structures to enable these products, available across various sectors. Setting a clear outer boundary for the Bailiwick could enable the Commission to continue to operate and deliver proportionate regulation within it.

The Commission could make a rule to the effect that where a regulated firm refers to the sustainability characteristics of a product or service, such reference is:

- Consistent with the sustainability characteristics of the product or service; and
- Fair, clear and not misleading.

If implemented, such a rule would mirror the United Kingdom Anti-Greenwashing Rule issued in May 2024, and potentially aligning with the FCA in this way could lower administrative burdens for some firms.

The Commission is also considering articulating its expectation that licensees providing directorship services should take steps to ensure that client companies are not engaged in greenwashing.

Q13. Do you have any observations on the potential introduction of a general anti-greenwashing rule for the Bailiwick?

Engaging with sustainability

Finance sector Code of Corporate Governance

As previously highlighted, in 2021 the Commission amended the Code of Corporate Governance[12] and introduced a requirement that Boards consider the impact of climate change on their strategy and risk profile, and where they consider it appropriate, make climate change related disclosures. As we consider the new international reporting standards which address not just climate-related but also other sustainability-related risks it would seem appropriate to further amend the Code of Corporate Governance to widen the scope of risks considered by the board beyond just climate change to cover broader environmental risks.

Q14. Do you have any observations on the potential amendment of the Code of Corporate Governance to include Board consideration of environmental risks in addition to climate-related risk?

Risk champion

In order to develop a comprehensive approach to sustainability and climate change risk consideration, the Commission considers that leadership within firms is important.

Consideration could be given to the appointment of a person, at manager or board level, to consider and champion a firm's approach to sustainability and climate change risks and opportunities. The exact role and seniority of this individual would depend on the size of the firm and the sector of the industry that it operates in, but the individual would be empowered with the necessary level of authority to consider and recommend action on these important matters.

Q15. Do you think the concept of a sustainability champion at a firm has merit? If so, does this person need to be at Senior Manager or Board level?

[12] https://www.gfsc.gg/sites/default/files/2021-10/Finance%20Sector%20Code%20of%20Corporate%20Governance.pdf

Summary of questions

Page(s)	Question
18	Q1. What do you think about the proposition for what good looks like for the Bailiwick?
19	Q2. Do you consider that the Bailiwick should develop an action plan to identify and address the potential impact of ISSB standards?
19	Q3. Please share details of any existing sustainability reporting your business may already be subject to or working towards?
19	Q4. Does your firm expect to report against ISSB standards (or provide data for customers who will report against these standards) in the future, irrespective of formal adoption in the Bailiwick? If so, what will be the key driver behind this, when is it anticipated that such reporting would commence?
20	Q5. Do you consider that there are any impediments (legal, regulatory or otherwise) within the Bailiwick's current infrastructure to voluntary disclosure under the ISSB standards?
21	Q6. Which industry sector, sub-sector or types of entity present in the Bailiwick, if any, do you believe should be regarded as publicly accountable entities, which should be subject to disclosure requirements consistent with ISSB standards? Please could you explain the reasoning behind your answer.
21	Q7. How relevant do you feel the ISSB standards are likely to be to those running regulated investment funds, both closed and open ended? If you don't think they are relevant, is that because, for example, another set of standards (e.g. EU SFDR standards) is likely to become the global norm or because you think it is premature to consider imposing standards in the funds area at this time? Please could you explain the reasoning behind your answer.
21	Q8. To the extent that the Bailiwick seeks to apply S1 and S2 reporting requirements, should the jurisdiction aim to fully adopt these requirements or remain open to the use of jurisdictional modifications?
22	Q9. If ISSB S2 consistent disclosure requirements are introduced in the Bailiwick, to what extent do you think firms should be required to report on Scope 3 emissions? If you think it should become compulsory, what timescale would you advocate for adoption?
22	Q10. What sustainability data, if any, are you gathering internally?
23	Q11. Do you believe that environmental reporting technologies currently available are sufficiently developed to support ISSB S1 and S2 reporting requirements? If so, please share examples.
23	Q12. How might the Commission best enable the use of simplifying and burden reduction technologies in any new sustainability reporting requirements it may develop to help the Bailiwick meet ISSB Standards?
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