



Open Letter on Addressing International Fragmentation

June 2026

Background

Established in 1961, the WFE is the global industry association for exchanges and clearing houses. Headquartered in London, it represents the providers of over 250 pieces of market infrastructure, including standalone CCPs that are not part of exchange groups. Of our members, 39% are in Asia Pacific, 41% in EMEA and 19% in the Americas region. The WFE's 74 member CCPs and clearing services collectively ensure that risk takers post some USD 1.4 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. WFE exchanges are home to over 41,000 listed companies, and the market capitalization of these entities is over \$137 trillion; around \$198.5 trillion in trading annually passes through WFE members (at end-2025).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back 50 years and provides information and insight into developments on global exchanges. The WFE works with standard-setters, policy makers, regulators and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise the common good, consumer confidence and economic growth. And we engage with policymakers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system. If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal.¹

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If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

Rona Nairn, Manager, Regulatory Affairs: rnairn@world-exchanges.org

Victoria Powell, Senior Manager, Regulatory Affairs: vpowell@world-exchanges.org

Richard Metcalfe, Head of Regulatory Affairs: rmetcalfe@world-exchanges.org

or

Nandini Sukumar, Chief Executive Officer: nsukumar@world-exchanges.org.

¹ Our EU Transparency Register number is 973382524675-69

Executive Summary

The WFE is calling on forward-looking regulators, standard setters, supervisors and legislators (hereby referred to as 'Authorities') internationally to take urgent and coordinated action to address cross-border fragmentation in sustainability regulation.

Exchanges and their listed issuers operate in an inherently global environment. For these businesses, international divergence on sustainability regulation, compounded by contradictory political headwinds and regulatory reversals in the run-up to compliance deadlines, creates significant costs and undermines their ability to manage compliance obligations efficiently. Where fragmented regulation exists, it hinders global growth by duplicating costs, erecting barriers to cross-border expansion, and diverting capital away from substantive sustainable outcomes toward formal compliance.

The WFE calls on Authorities globally to act on four priorities when advancing their sustainability agendas:

1. **Prioritise alignment and interoperability with leading global standards, frameworks and regulations.** The burden of complying with multiple regulatory regimes is significantly eased where businesses are able to use the same data, processes, structures and systems to meet their regulatory obligations across different jurisdictions.
2. **Adopt a principles-based, outcomes-focused approach.** Prescriptive, formalistic regulation quickly becomes outdated and fails to accommodate sectoral and operational diversity. **Principles-based** requirements focused on substantive outcomes – supplemented by detailed, adaptable guidance – enable businesses of all sizes, sectors and locations to comply effectively.
3. **Provide clarity, consistency, and predictability.** Businesses cannot invest in long-term compliance strategies when regulatory commitments are unclear, inconsistent or changed close to deadlines. Authorities must communicate clearly and consistently, providing sufficient notice and detail for businesses to assess how they will be impacted, set realistic timelines, seek and act on industry feedback, and follow through on published commitments.
4. **Enable businesses to demonstrate compliance via alternative standards and frameworks where appropriate.** Deference and passporting mechanisms grounded in IOSCO's 'same activity, same risk, same outcome' principle are an effective way of enabling businesses that have already complied with one recognised framework to satisfy comparable obligations in other jurisdictions. These mechanisms support global growth by reducing duplicative compliance burdens, incentivising cross-border growth, and freeing up capital for investment in genuine sustainable outcomes and strategic priorities.

These four priorities will ensure that, where Authorities advance sustainability initiatives, those initiatives are proportionate and support global growth. The WFE and its members stand ready to engage constructively with Authorities in pursuit of these objectives.

Introduction

For exchanges and their listed issuers that need to function in a global world, international divergence on sustainability regulation is of increasing concern.

Contradictory political headwinds, along with divergence and fragmented implementation, are contributing to an environment where lack of certainty, predictability and consistency make it difficult for global businesses to plan and to manage their international obligations efficiently. This negatively impacts businesses' ability to expand their operations and develop strategies for resilient success in the long term.

Fragmentation and divergence on sustainability regulation (by which we mean formal, binding sustainability-related requirements) increases costs and barriers to global growth as companies, investors and brokers increasingly trade, list, operate and access financing opportunities across borders. Fragmentation duplicates compliance efforts for international businesses and investors that need to satisfy multiple regimes prescribing different requirements and formats. Meanwhile, divergent political impetuses with short-term horizons make it difficult for businesses to plan for the future and create holistic, consistent narratives across their operations and publications.

To support global growth, it is important that Authorities work towards international alignment and interoperability. It is also important that they communicate their direction of travel clearly and consistently, working closely with governments and other officials to ensure that businesses are not subjected to conflicting or contradictory obligations.

Recommendations

To support exchanges and their issuers in developing a strategic approach to growth and resilience, the WFE calls on Authorities internationally to:

1. Prioritise alignment and interoperability with leading global standards, frameworks and regulations

Increasingly, businesses are managing a global footprint that requires them to comply with multiple jurisdictional regulatory regimes and requirements. The burden of complying with multiple regulatory regimes is significantly eased where businesses are able to use the same data, processes, structures and systems to meet their regulatory obligations across different jurisdictions.

Enabling businesses to **adapt their existing compliance regimes** to meet international regulatory obligations as far as possible requires Authorities to maintain consistency across the core scope and requirements of their regulations. As a result, Authorities advancing sustainability regulation should **prioritise alignment and interoperability with leading global standards and frameworks**, specifying jurisdiction-specific obligations and outputs only where critical.

In particular, Authorities should consider alignment and interoperability with the **International Sustainability Standards Board (ISSB) Standards**, the **Taskforce on Nature-related Financial Disclosures (TNFD) Framework** and the **Transition Plan Taskforce (TPT)** as these frameworks

are being widely adopted internationally. Authorities should also consider how their work interacts with and is interoperable with EU regulations that will have implications and potential extraterritorial impacts for large businesses with a presence in the EU, such as the EU Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), the EU Green Bond Standard and the EU Taxonomy Framework.

Regulatory regimes and sustainability-related standards (by which we mean formal sustainability-related expectations that are not binding, though may form the basis for regulation) that prioritise consistency with these leading initiatives will **minimise the burdens** posed to businesses seeking to comply or voluntarily align. This will, in turn, create an environment where businesses are able to **expand and thrive**, and may afford jurisdictions a **competitive advantage** over peers with more bespoke and burdensome regimes.

2. Adopt a principles-based and outcomes-focused approach

Sustainability standards and regulations are still evolving and are doing so at pace, affecting businesses across a wide range of sizes, structures, sectors and jurisdictions.

To accommodate evolutions in good practice, technology and stakeholder expectations, Authorities should adopt principles-based approaches that focus on substantive outcomes over formal compliance wherever possible. Adopting **principles-based, outcomes-focused regulation and standards supports businesses** by avoiding overly prescriptive and formalistic requirements that may not align with market practices, sectoral nuances and operational realities. Meanwhile, enshrining prescriptive requirements runs the risk that regulation and standards will quickly become outdated, necessitating regular updates through potentially lengthy and politically sensitive processes.

When designing sustainability-related regulations and standards, responsible bodies should seek to centre their approach around **prescribing high-level requirements centred on substantive outcomes**. These high-level requirements should then be **supplemented by more detailed expectations**, reflecting current good practice, science, technology and market realities, set out in guidance that has a less demanding compliance basis. Wherever possible, Authorities should pursue timely, clear and practical guidance over adding unnecessary complexity to formal requirements.

When designing the high-level principles, Authorities should **consider the full breadth of businesses** that may seek to comply. Authorities should ensure that their requirements are feasible and proportionate for businesses from a broad range of sectors and sizes. including through robust impact assessments. Similarly, when setting out more detailed supplementary expectations, Authorities should take care not to specify actions, metrics and targets, processes and formats that are not appropriate across sectors and business sizes. Authorities should adopt a risk-based approach to determining what should be specified in regulation versus supplementary guidance.

To ensure adequate detail is provided to guide businesses while also ensuring broad applicability, Authorities issuing sustainability regulation and standards may wish to develop a **suite of**

guidance and more detailed expectations that are tailored to different sectors and business sizes. In particular, Authorities should consider developing sector-specific guidance and expectations for **hard-to-abate sectors** and **small and medium-sized enterprises** (SMEs).

3. Work towards creating a regulatory environment that supports clarity, consistency and predictability

Regulatory uncertainty and contradictory political headwinds have created an environment where businesses **struggle to plan and to manage their international obligations efficiently.** This negatively impacts businesses' ability to expand their operations and develop strategies for resilient success in the long term. In recent months, this issue has been exacerbated by a number of significant regulatory **changes and reversals in the run-up to compliance deadlines** in certain jurisdictions where businesses had already invested heavily in preparing to meet their compliance obligations.

It is important that businesses are able to **plan for the long term** and are not disincentivised from **investing in early compliance** by the possibility that regulatory commitments and requirements will be changed or reversed as compliance deadlines approach.

To create the clarity, consistency and predictability that businesses need to thrive, Authorities must communicate their direction of travel **clearly and consistently.** This means communicating regulatory strategies and interventions well **in advance,** with **sufficient detail** for businesses to assess how they will be impacted, as well as **consulting publicly** on proposals and **responding to industry feedback.** It also means setting **realistic compliance deadlines** for businesses, including by adopting a **phased approach** where appropriate for businesses that may need longer to prepare and build capacity. Where Authorities are pursuing regional and/or global initiatives, they should seek to depart from the initiative only where strictly necessary for their market to reduce unnecessary fragmentation being introduced at the point of implementation.

Wherever possible, Authorities should **follow through on their regulatory commitments** and initiatives once these have been formally communicated to, and relied upon by, businesses so as not to disincentivise early adoption and preparation efforts. In addition to sending **clear and strong market signals** to businesses around the direction of travel, the actions they should be taking and what they should be prioritising, Authorities should seek to provide **support for businesses** that are preparing to meet compliance deadlines or choose to align early or voluntarily.

Additionally, Authorities should work closely with governments and other officials to **ensure that businesses are not subjected to conflicting or contradictory obligations,** enabling businesses to have a consistent strategy across jurisdictions.

4. Enable businesses to demonstrate compliance via alternative standards and frameworks where appropriate

In addition to adopting a principles-based approach, Authorities should consider what further flexibility they are able to introduce to better **enable businesses to take a common-sense approach** to alignment. In doing so, Authorities should pursue a ‘report once, use many’ principle that allows businesses to make the most of their existing data, processes, structures and systems.

One way in which regulators may introduce further flexibility is through **deference or ‘passporting’ mechanisms**. These mechanisms allow businesses that have already prepared sustainability reporting or other sustainability-related outputs in line with one set of regulations or standards to use those outputs as a means of complying with another set of regulations or standards.

Deference and passporting mechanisms **support global businesses and incentivise global growth**. They do this by preventing businesses from having to invest in multiple different compliance regimes to meet obligations with the same substantive objectives in multiple different jurisdictions, which could otherwise disincentivise expansion into new territories. This **frees up capital for businesses to invest in sustainable outcomes and strategic priorities** rather than formal compliance.

Regulators that choose to introduce deference or passporting mechanisms should take care to ensure that these mechanisms continue to support investor protection and market integrity, and do not impede the **consistency, comparability and decision usefulness** of outputs. They can do this by endorsing appropriate standards and regulations with substantively similar objectives and outcomes capable of being submitted in compliance or partial compliance with their own regulation or standard. For example, a regulator that requires disclosures aligned with the ISSB Standards may accept disclosures prepared in line with the EU’s CSRD as being compliant. Where a domestic regulation or standard sets a high bar, regulators may choose to require additional action or information to be provided by the business on top of the outputs prepared in compliance with the endorsed alternative regulation or standard.

Deference and passporting mechanisms work best when they apply an **outcomes and objectives-focused approach to assessment**. Assessments that focus on whether standards and regulations pursue similar objectives and achieve similar outcomes enable **timely decisions** and ensure that **businesses meet core objectives and produce substantively similar outputs** without posing unnecessary burdens related to formalistic requirements. Meanwhile, ‘line-by-line’ assessments slow down decision-making processes and drive rejections based on individual requirements, form and procedures rather than the substantive content and spirit of a regulation or standard.

Deference and passporting mechanisms are further supported by regulatory and standard-setting approaches that **prioritise alignment and interoperability with leading global standards, frameworks and regulations**. Regulations and standards developed with those considerations in mind support **comparability assessments** with other initiatives internationally and **clear, robust determinations** about whether those initiatives pursue similar objectives and outcomes or do not meet the requisite levels of ambition and rigour. Deference and passporting

mechanisms are further supported where Authorities **limit any adaptations and additions** they make to leading global standards, frameworks and regulations as part of their domestic implementation to substantive changes that improve outcomes over formalistic adaptations.

Due to the rapidly evolving landscape of sustainability regulations and standards, Authorities must **keep the standards they choose to endorse under review** and consider endorsing additional robust and internationally recognised initiatives as and when they develop.

Regulators considering deference and passporting mechanisms should look to **IOSCO's 2020 Report 'Good Practices on Processes for Deference'**, which advocates for an approach based on the principle of 'same activity, same risk, same outcome'. In advancing any such mechanisms, it is important to prioritise **timely assessments and determinations** so as not to impede cross-border activities and expansions.