13 August 2021

ASIFMA AMG Response to the IOSCO's Consultation Paper on Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management

On behalf of the Asset Management Group ("**AAMG**")[1] of Asia Securities Industry & Financial Markets Association ("**ASIFMA**")[2], we would like to submit our responses to the questions in the Consultation Paper on Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management ("**Consultation Paper**") issued by IOSCO in June 2021.

Please see our responses below:

Q1. Will the recommendations outlined below sufficiently improve sustainability-related practices, policies, procedures and disclosure in the asset management industry and address the issue of greenwashing? Are there other areas of sustainability-related practices, policies, procedures and disclosure in the asset management industry not mentioned in this consultation report that should be addressed as separate recommendations?

With IOSCO members regulating most of the securities markets around the world, AAMG believes that IOSCO is the most appropriate body to drive regulatory efforts to improve sustainability-related practices, policies, procedures and disclosure ("**PPP&D**") in a manner that ensures harmonisation across different jurisdiction.

We support prescriptive recommendations with regards to basic building blocks (i.e. metrics and methodologies used, see further comments in our response to Question 10) and high-level principles-based recommendations for how those basics are pulled together into specific regulations, which allow for local nuances in individual jurisdictions. In this respect we therefore support IOSCO's recommendation that asset managers' sustainability-related PPP&D follow the

[1] ASIFMA Asset Management Group (AAMG) is a separate division of ASIFMA set up to represent the interest of asset managers. AAMG currently has 37 members, most of which are among the world's largest asset managers. A list of the AAMG members can be found in https://www.asifma.org/membership/members/

[2] ASIFMA is an independent, regional trade association with over 150 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive and efficient Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

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four pillars of the TCFD framework, which we discuss in further detail in our response to Question 2 below.

Appropriate emphasis on sustainability: Our members believe that sustainability-related risks are an important issue that are rightly gaining significant attention. Regulators / policymakers should however view them as a subset of risks to be incorporated into existing risk management frameworks, and subject to appropriate consideration and PPP&D alongside traditional sources of risk. Similarly, existing supervision and enforcement tools that regulators have on-hand should be sufficient to deal with any misleading sustainability claims made by asset managers or misrepresentation of their products.

Data availability issues: AAMG is broadly supportive of the recommendations outlined in the Consultation Paper. However, to sufficiently improve PPP&D requires acknowledging the sequencing of regulatory regime initiatives. That is, by first addressing the quality, completeness and comparability of underlying data that flow up to asset managers in order to allow them to make appropriate investment decisions and proper disclosure. Whilst the quality and consistency of reporting by investee companies is improving, asset managers investing in emerging markets in particular face challenges in data collection.

We recognise the importance in creating an ecosystem for data, including the use case for issuers to disclose to asset managers. We would however hope that regulators / policymakers acknowledge the data collection difficulty and provide safe harbours from enforcement that encourage asset managers to disclose without penalising them for estimated data, unavailability of data and other factors outside their control, as long as the relevant data limitations are clearly disclosed and explained to investors.

Q2. The key areas identified are based on the key pillars of the TCFD Framework. Do you agree with this approach?

AAMG supports alignment with the four pillars of the TCFD Framework and disclosure around these pillars. This would pave the way for a consistent set of baseline disclosures across jurisdictions. Importantly, where asset managers operate in multiple jurisdictions, a global consolidated TCFD report should be explicitly recognised by regulators as satisfying any local requirements.

In fact, AAMG supports alignment with the TCFD pillars even beyond climate-related risks and opportunities. AAMG released a paper in June 2021 entitled 'Investors' ESG Expectations: An Asian Perspective' (which can be found at https://www.asifma.org/research/asifma-investor-esg-expectations-an-asian-perspective/) in which our members hold that the four pillars of the TCFD Framework (i.e. Governance, Strategy, Risk management, Metrics and Targets) can be applied to a broader set of sustainability issues beyond the climate. Whilst TCFD is typically applied to public companies, we believe it can similarly be adapted to asset managers as fiduciaries of client assets, as suggested in the explanation to Recommendation 1 (i.e. Governance, Investment strategy, Risk management, Metrics and Targets), notwithstanding the present unavailability of universally accepted metrics for broader ESG issues, such as water risk and biodiversity, social inclusion and modern slavery.

Q3. Should the scope of this recommendation cover all asset managers or be limited to only those asset managers that take sustainability-related risks and opportunities into consideration in their investment process?

AAMG believes that this recommendation should cover all asset managers, and in particular that all asset managers should be subject to a consistent set of baseline disclosures based on the TCFD framework as discussed above, as uniformity of disclosure fosters best practice and enhances transparency and comparability for stakeholders. Recognising however that there may be managers for whom sustainability-related risk and opportunities are less relevant, as in the case of certain short-term and event-driven hedge funds, regulators should provide an option for such managers to make an explicit statement where sustainability-related risks and opportunities are not taken into consideration, i.e. a negative statement, in which case the requirements on sustainability-related PPP&D would not apply.

AAMG also supports the principle of proportionality and the phasing in of rule changes. That is, asset managers can adopt approaches in governance, investment strategy, risk management, and metrics and targets, and their related disclosure, which is commensurate with their business model, size and asset base (e.g. AUM, asset classes managed).

Q4. Should securities regulators and/or policymakers, as applicable, consider setting out different disclosure requirements for products with sustainability-related investment objectives as compared to products that promote sustainability-related characteristics? If so, for which of the different areas of disclosure listed above should the requirements vary, and how should they vary? In addition, if so, should securities regulators and/or policymakers, as applicable, consider specifying thresholds or other criteria for determining whether a product has sustainability-related investment objectives as compared to sustainability-related characteristics, and what should those thresholds or criteria be?

Our members believe that it makes sense for regulators / policymakers to set parameters and expectations around product disclosure to avoid greenwashing. We support a consistent set of baseline product disclosure rules which are principles-based, rather than prescriptive requirements, which cater for the full-spectrum of sustainable (and non-sustainable) products available or still being developed, and which are harmonised across jurisdictions. We are wary that a focus on prescriptive requirements may result in onerous disclosure requirements which may not necessarily result in a material or meaningful information about the products in question.

Consistent and comparable sustainability-related disclosure at the product level, coupled with coalescence around common sustainable investing terminology (discussed further in our response to Question 13), will facilitate greater transparency for investors around the objectives, strategies and holdings of sustainable products. Our members feel strongly that this transparency negates the need to distinguish between products that have sustainability-related objectives and those that promote sustainability-related characteristics, especially as the distinction is often not clear-cut. Indeed, transparency is far preferable to any prescriptive product classification or arbitrary hurdle which could devolve into a box ticking exercise and/or an artificial fund badge which carries little meaning.

Q5. Should naming parameters permit the product name to reference sustainability only if the investment objectives refer to sustainability?

AAMG reiterates that IOSCO should adopt a principles-based approach which allows for flexibility towards product naming. We would suggest specifically that the product name can only reference sustainability if the investment objectives refer to sustainability to the extent that incorporation of a sustainability objective is a deliberate, non-coincidental and binding component of product construction, for example, universe selection or choice/weight of investment.

In parallel, efforts should also be directed towards harmonising a set of common sustainable investing terminology in order for naming conventions to be meaningful and comparable across jurisdictions. Notwithstanding this, we would encourage regulators / policymakers to support the use of passporting from comparable or "stricter" regulatory frameworks to other jurisdictions, to reduce the compliance burden on industry participants distributing products in multiple jurisdictions.

Finally, we point to the importance of improving transparency and common understanding as the most effective way of addressing greenwashing, rather than prescriptive rules around naming.

Q6. Should a product need to have an ESG, SRI or similar label in order to be marketed as a sustainability-related product?

AAMG would not support the requirement of an ESG, SRI or similar label for sustainability-related products. We are already seeing a proliferation of naming protocols in different jurisdictions which are creating issues for products which are distributed in multi-jurisdictions. Another concern with ESG labels currently is that they are overly focused on past data and do not robustly capture forward-looking transitions, thereby creating bias towards developed markets. We believe regulators / policymakers should focus on broad classifications and standardised terminology, such as those mentioned in our response to Question 13, coupled with baseline product disclosure requirements which will be much more effective in ensuring sustainable products remain true to sustainability objectives and/or features.

Q7. Do you agree with the specified areas of investment strategies disclosure?

We agree with the specified areas of investment strategies disclosure, to the extent that they are applicable, and proportionate to the weight that sustainability is given in an investment strategy.

Q8. Should the disclosures address how past proxy voting and shareholder engagement records align with the investment objectives or characteristics of a sustainability-related product?

Our members have different approaches to proxy voting and shareholder engagement. For some firms, shareholder engagement is generally conducted at a firm-wide rather than a product level, such that they question whether product level disclosure would be decision-useful for a product investor. Other firms may adopt an investment strategy which makes use of proxy voting, and disclosure may be appropriate to differentiate from other ESG strategies. To the extent that a product specifically refers to proxy voting and shareholder engagement as part of its investment objective or strategy, we believe it is appropriate to disclose at a product level and is an important element of transparency in demonstrating the product has complied with its stated investment objective or process. Otherwise our members believe that disclosure of stewardship and engagement activities should be made at the asset manager level.

Q9. Should securities regulators and/or policymakers, as applicable, also address the format and presentation of marketing materials and website disclosure for sustainability-related products?

Our members recognise the challenge in making format and presentation requirements detailed and consistent enough to allow comparison between products yet balancing the burden of prescriptive requirements. We support regulatory guidance on a high-level, principles-basis, for example, providing generic headers, common categories and terminologies harmonised across jurisdictions, rather than prescriptive templates.

Q10. Should securities regulators and/or policymakers, as applicable, encourage the use of specific metrics or key performance indicators to assess, measure and monitor the sustainability-related product's compliance with its investment objectives and/or characteristics? Should these metrics be subject to self-selection, or should there be a standardised approach?

As metrics are still evolving, and the quality of data from issuers is still not standardised, we recommend a phased approach, such that at this nascent stage regulators / policymakers begin by encouraging discussion, debate and awareness, rather than mandate the use of certain of metrics. The release of guidance or technical notes by policy makers, especially following consultation with experienced industry players, can be very useful resources in steering the industry's growth and development in this regard. Ultimately, AAMG considers a certain degree of standardisation of sustainability-related metrics and key performance indicators helpful in promoting comparability of disclosures and products.

Regulators / policymakers should encourage, but not mandate, the use of metrics, but the choice of the specific metric is necessarily product-specific, as what is decision-useful depends on the strategy in question. For example, implied temperature rise will be a more relevant metric for a climate fund as opposed to a social impact fund. We would also highlight for example, the limitations of metrics such as weighted average carbon intensity ("**WACI**") where there are currently no commonly accepted ways to define this metric for fixed-income strategies that own sovereigns or securitised assets. The mandating of specific metrics like WACI could also lead to the conclusion that this is how to measure any ESG product's credentials, leading to unintended consequences.

We therefore support that metrics should be self-selected by the asset manager and should be accompanied by clear disclosure around how such metrics relate to the product's sustainable features and any limitations that such metrics are subject to. In addition, AAMG recommends regulators / policymakers acknowledge the evolving nature of sustainability metrics and encourage the disclosure of product-level metrics on a "best efforts" basis, so as not to deter efforts to enhance transparency through greater adoption of metrics for fear of liability claims.

Q11. Should periodic reporting include both quantitative and qualitative information about whether a sustainability-related product is meeting its sustainability-related investment objectives and/or characteristics?

In order for disclosure to be meaningful, we believe it needs to include both quantitative and qualitative information. Quantitative information should only be required where it is both relevant and appropriate. For example, quantitative data may not add significant value to an exclusionary based sustainability-related strategy.

Given data availability constraints previously mentioned, as well as differences in methodologies and assumptions, it is especially important to include qualitative elements to contextualise the quantitative disclosures.

Q12. Do you agree that securities regulators and/or policymakers, as applicable, should encourage industry participants to coalesce around a set of consistent sustainability-related terms?

We support industry developing on its own around high-level principles-based terms, such as inclusionary, exclusionary and impact investing, with regulators / policymakers endorsing those outcomes. Regulators / policymakers should ensure that this coalescence occurs globally rather than at a local level, to avoid market fragmentation and confusion.

Q13. Are there any sets of standardized sustainability-related terms being developed by international organisations that should be considered by securities regulators and/or policymakers, as applicable?

Sustainability-related terms and initiatives supported by industry: Some international initiatives that our members support include the terminology frameworks for sustainable investing strategies put forward by ICI Global[3] (ie. ESG exclusionary, ESG inclusionary and Impact) and that put forward by the Institute of International Finance[4] (i.e. Exclusion investments, Inclusion investments and Impactful investments). Both initiatives draw a distinction between ESG integration processes and sustainable investment strategies. Other frameworks and principles that members recommend include the glossary of commonly used terms in the PRI Reporting Framework[5] and the IFC's Operating Principles of Impact Management[6].

In contrast, securities regulators / policymakers should not have regard to initiatives that do not have broad industry support. For example, AAMG do not support the CFA Institute's proposed ESG Disclosure Standards for Investment Products and do not believe they should be considered by securities regulators / policymakers.

Prioritise corporate issuer disclosure: Earlier we also raised the importance of sequencing in regulatory regime initiatives. Corporate issuer disclosure must be fixed first in order to make any product level disclosures meaningful. To this end, AAMG supports the efforts of TCFD and the IFRS Foundation to improve the consistency and comparability of sustainability-related disclosures of corporate issuers. We note in particular that the IFRS Foundation's efforts in setting up an International Sustainability Standards Board is supported by the alliance of

[3] "Funds' Use of ESG Integration and Sustainable Investing Strategies: An introduction", July 2019, Investment Company Institute (https://www.ici.org/system/files/attachments/20_ppr_esg_integration.pdf)

[4] "The Case for Simplifying Sustainable Investment Terminology", October 2019, Institute of International Finance (https://www.iif.com/Portals/0/Files/content/IIF%20SFWG%20-%20Growing%20Sustainable%20Finance.pdf)

[5] "Reporting Framework glossary, Principles for Responsible Investment (https://www.unpri.org/reporting-and-assessment/reporting-framework-glossary/6937.article)

[6] "Investing for Impact: Operating Principles for Impact Management", February 2019, International Finance Corporation/The World Bank (https://www.impactprinciples.org/sites/default/files/2019-06/Impact%20Investing_Principles_FINAL_4-25-19_footnote%20change_web.pdf)

sustainability reporting organisations, including Value Reporting Foundation (merging SASB and IIRC), Carbon Disclosure Project, Climate Disclosure Standards Board and GRI.

Q14. Do you agree that securities regulators and/or policymakers, as applicable, should promote financial and investor education initiatives relating to sustainability, or, where applicable, enhance existing sustainability-related financial and investor education initiatives?

AAMG agrees that regulators / policymakers should promote financial and investor education initiatives, however we would reiterate that sequencing is important, with data availability and product requirements improved before the focus moves to investor education.

Moreover, we also encourage regulators / policymakers to place greater attention to the education of financial advisers from whom end-investors receive advice and purchase sustainable products, to ensure they are adequately equipped to provide accurate and relevant information to address the needs of investors and assist them to make better informed choices.

Q15. Are there any specific sustainability-related financial and investor education initiatives not mentioned in this consultation report that could be considered by securities regulators and/or policymakers, as applicable?

AAMG notes that ultimately financial education should equip ordinary investors with the knowledge to make an informed investment choice over their sustainability preferences. Diverse investors may weigh specific Environmental, Social or Governance factors that are more relevant to their investment objectives differently.

However, for retail investors in Asia in particular, we see that there is a pressing need to educate on the fundamentals of investing for the long-term (as opposed to short-term trading and speculation) which goes hand-in-hand with the concept of sustainability.

Please feel free to contact Yvette Kwan at ykwan@asifma.org you have any questions regarding any of our comments.

Yours sincerely,

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