Managed Funds Association
The Voice of the Global Alternative Investment Industry
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Via electronic mail: consultation-01-2021@iosco.org

Raluca Tircoci-Craciun
International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid
Spain

RE: 'Public Comment on Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management' (June 2021)

Managed Funds Association ("MFA")[1] appreciates the opportunity to respond to the Board of the International Organization of Securities Commissions ("IOSCO")'s Consultation Report on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management (the "Report"). MFA welcomes, in particular, IOSCO's efforts to provide a forum for international cooperation on issues related to sustainability disclosure and regulatory reform.

I. INTRODUCTION

MFA members use a wide spectrum of investment strategies to serve a diverse and representative class of institutional investors. In the U.S. alone, institutional investors – such as pensions, nonprofits, foundations and endowments, and colleges and universities – invest $1.4 trillion in hedge fund and alternative investment firms to help support retirement security, higher education, and the important work done by foundations and charities across communities.

Alternative investment managers consider a broad array of risk factors when making investment decisions, including sustainability risk. Many of our member firms manage assets on behalf of investors who are increasingly attentive to climate risk and to environmental, social, and governance ("ESG") risks. Consequently, MFA members are acutely aware of the need for accurate, consistent, decision-useful sustainability-related disclosures that will facilitate their ability to make informed and financially responsible investment decisions on behalf of the investors they serve.

MFA hopes the efforts of IOSCO will facilitate market participants' ability to access and rely upon material, accurate, consistent, and comparable information regarding sustainability risk issues across asset classes. It

[1] MFA represents the global alternative investment industry and its investors by advocating for regulatory, tax, and other public policies that foster efficient, transparent, and fair capital markets. MFA's more than 140 member firms collectively manage nearly $1.6 trillion across a diverse group of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors to diversify their investments, manage risk, and generate attractive returns over time. MFA has a global presence and is active in Washington, London, Brussels, and Asia.

is important for the transparency and efficiency of our markets that market participants, inclusive of investors, receive clear and reliable information about sustainability-related risk.

II. COMMENTS

MFA strongly recommends that, as a preliminary step, IOSCO and its member jurisdictions focus their efforts on constructing and implementing an effective corporate disclosure framework. A robust corporate disclosure regime should act as the foundation upon which asset-manager-focused disclosure and sustainability standards can subsequently be built. Implementing a regulatory framework specific to asset managers without having an effective corporate disclosure regime already in place would be a detrimental outcome for the following reasons:

- a lack of issuer data will lead to inconsistent investment manager risk assessments and disclosures to fund investors;
- corporate issuers will find themselves subject to a host of competing, non-standardised disclosure requests from the investor community; and
- without an effectively functioning issuer disclosure regime, there is a greater risk of greenwashing at all levels of the investment chain.

For these reasons, we encourage IOSCO and its members to emphasize that disclosure regulation aimed at corporate issuers should take precedence in terms of timing, prior to any phase-in of asset manager-focused measures. Disclosure cycles should also be sequenced such that investment managers have sufficient time to collate and consider relevant issuer disclosures prior to being required to publish their own sustainability risk disclosures. In addition, as asset managers have exposures to a wide range of asset classes for investment and hedging purposes for their beneficiaries, we encourage clear and complete data and guidance on taking into account sustainability risk factors in asset classes beyond corporate issuers, and a sequenced approach to phasing in of any disclosure cycles that may eventually apply to asset managers in this regard. We have expanded on these points in our comments below.

(i) <u>Importance of effective disclosure by corporate issuers</u>

MFA is supportive of the aim set by IOSCO's Board-level Task Force on Sustainable Finance of improving sustainability-related disclosures for corporate issuers.[2] We agree in particular with IOSCO's view, as noted in the Report, that "asset managers need to procure and process ESG data that is relevant, comparable and decision-useful as part of the investment management process in order to evaluate and monitor companies' ESG risks, progress and performance."[3]

In our view, a sustainability-related issuer disclosure framework should operate as the foundation upon which all other applications of sustainability-related disclosures are built, including those that apply directly to asset managers. Such a foundation and framework will inform and facilitate capital investment and disclosures to end-investors.

MFA recognises the benefit of IOSCO coordinating regulatory expectations on sustainability-related disclosures by issuers. In recent years, MFA has become increasingly concerned about the variety,

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[2] As highlighted at page 4 of the Report.
[3] See page 5 of the Report.

inconsistency, and volume of sustainability (including climate-related) corporate disclosures, whether mandated or voluntarily provided, and certain deficiencies and gaps in sustainability-related corporate disclosures globally. We also regard an effectively functioning issuer disclosure regime as a vital tool in reducing the risk of greenwashing at all levels of the investment chain.

(ii) Timing of reporting deadlines

A key element in encouraging the dissemination of high-quality data throughout the value chain will be to ensure that investment managers are not required to make detailed disclosures without first having the benefit of comprehensive corporate disclosures. For this reason, sustainability disclosure regulation aimed at corporate issuers should take precedence in terms of timing, prior to the phase-in of any asset manager-focused measures. Disclosure cycles should also be phased such that investment managers have sufficient time to collate and consider relevant issuer disclosures prior to being required to publish their own sustainability risk disclosures.

Otherwise, asset managers will be left with data gaps that may in some cases need to be filled *via* climate risk modelling or proxy data, which is likely to be inconsistent and not fully reliable for investors. Such techniques can be helpful tools but are ultimately no substitute for detailed disclosures from corporate investee companies and should not be mandated upon asset managers. A lack of issuer data may also lead to inconsistent investment manager risk assessments and disclosures to fund investors. In addition, if corporate issuers have not yet published sustainability-related disclosures prior to the deadline for investment manager-focused disclosures, they may also find themselves subject to a host of competing, non-standardised disclosure requests from the investor community. Responding to these data requests on an individual basis could quickly become resource-intensive for the corporation in question.

(ii) Role of third-party standard-setting bodies

As a general comment on corporate disclosure standards, it is important for the industry and for regulators themselves that the power to apply, adjust, and enforce compliance with sustainability disclosure guidelines remains within the full control of national supervisory authorities. We recommend that regulators maintain authority on disclosure standard-setting and do not delegate this authority to third-party bodies that are not subject to the regulator's direct oversight or control. A domestic regulator will be considerably better placed (and likely better resourced) to monitor the compliance of firms within its jurisdiction, and to adjust domestic reporting frameworks if that becomes necessary over time (e.g. as a result of changes in the TCFD framework or the development of new reporting standards by global industry groups or policymakers). National supervisory authorities will also be best placed to discern whether regulatory standards applying to asset managers should incorporate a level of flexibility, depending on the sophistication of the manager's investor base.

(iii) Importance of international coordination

We support IOSCO's decision to highlight the current lack of consistency regarding sustainability-related terminology, and the need for regulators and policymakers to promote industry coalescence around a set of consistent sustainability-related terms. At present, MFA members are placed in the unenviable position of trying to discern what information will satisfy ever-evolving and complex global regulatory mandates and investor demands. Absent a coordinated set of sustainability-related disclosure standards applying to corporate issuers, MFA members are left to discern whether each individual portfolio company's

sustainability-related disclosure is accurate and/or complete. Given the U.S. Securities and Exchange Commission's ("SEC") deep expertise in regulating investment funds, including through regular examinations, we believe the SEC should play a central role in the development of global standards that are fit-for-purpose and effectively tailored to the unique nature of the industry.

III. CONCLUSION

MFA supports IOSCO in its efforts to ensure coordination between member jurisdictions on issues of sustainability regulation, including but not limited to corporate issuer disclosures. IOSCO should also consider the need for clear and complete data and guidance on sustainability risk across a range of asset classes. We look forward to contributing the views of our members as IOSCO refines its approach in these important areas. Please do not hesitate to contact Jennifer W. Han, Chief Counsel & Head of Regulatory Affairs.

Respectfully Submitted,

/s/

Michael Pedroni
Executive Vice President, Global Markets & Research
MFA