CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

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Raluca Tircoci-Craciun
Head of Growth and Emerging Markets,
Implementation Monitoring and Senior Policy Advisor
International Organization of Securities Commissions
Calle Oquendo 12
28006 Madrid
Spain

Re: Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management

Dear Ms. Tircoci-Craciun:

The U.S. Chamber of Commerce's Center for Capital Markets Competitiveness ("the Chamber") appreciates the opportunity to provide our views in response to the International Organization of Securities Commissions' ("IOSCO") public consultation on "Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management."

The Chamber has been a leader in the conversation on environmental, social, and governance ("ESG") topics for nearly a decade, encouraging industries to work with investors on standards to meet investor interests and reflect the unique circumstances and contexts of industries and businesses. We have and continue to actively collaborate with our members and other stakeholders to promote practices, policies, and technology innovations across industry and government that address our shared climate challenges, particularly to build smart, modern, resilient infrastructure and quickly reduce greenhouse gas emissions as low as we can as fast as we can.

The private sector has played a crucial role in spurring the continued evolution of market-based climate and sustainability-related disclosures intended to provide investors with decision-useful information and mitigate risk. The Chamber strongly believes, as we also made clear to the U.S. Securities and Exchange Commission ("SEC") in our June 11, 2021 comment letter on climate change disclosure,[1] that climate and sustainability-related disclosures should be based upon investor needs and that the regulation of such disclosures is principles-based and rooted in materiality.

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[1] U.S. Chamber of Commerce, Center for Capital Markets Competitiveness, Comment Letter to the Securities and Exchange Commission on its Request for Information on Climate Change Disclosure. June 11, 2021. http://www.centerforcapitalmarkets.com/wp-content/uploads/2021/06/210611_Comments_RFI_Climate_SEC.pdf?#

Any new disclosure requirements should afford each disclosing entity, in consultation with their investor base, adequate flexibility to adapt its disclosures to specific facts and circumstances.

<u>Asset Manager Disclosure and Fund Marketing</u>

The increasing interest surrounding ESG and sustainability has also led to growing demand for investment products that incorporate ESG criteria into their investment process, or which "screen" companies based upon a certain set of ESG criteria. According to Morningstar, total assets in sustainable funds is nearing $250 billion, including a record inflow of over $51 billion during 2020.[2] Last year the SEC sought public input regarding the naming of such funds,[3] and noted that funds use the term "ESG" very differently. For example, the SEC found that some funds use "ESG" as an investment strategy, while others treat ESG as a *type* of investment. Other concerns have been raised about the practice of "greenwashing" whereby a fund that claims to be ESG-friendly or sustainable does not live up to its billing.

We believe that regulators, including the SEC, should avoid a top-down, prescriptive approach to disclosure requirements and fund marketing materials for asset managers. Instead, regulators should take a principles-based approach that recognizes the evolving nature of ESG and sustainability issues. Such an approach could facilitate the further development of market-based disclosure while still guarding against materially false or misleading statements regarding ESG and sustainability topics.

The Chamber recognizes the increased interest in disclosure related to ESG and sustainability information as well as ESG or sustainability-themed investment products. We have encouraged both public companies and asset managers to develop clear disclosures that effectively inform investors about these evolving issues.[4] The Chamber recently surveyed U.S. public companies – including those from the financial services industry – regarding climate change and ESG reporting.[5] Among the many informative findings in this survey, respondents were clear that it is deeply important for disclosure regimes to remain flexible so that disclosing entities are able to respond in a manner that is suited to individual circumstances, as well as to what is most useful to investors. Climate-related reporting has evolved over time. Information that might have been expected twenty years ago may not be the same information that is decision-useful today. Likewise, information that is of interest to investors today may not be the same information that investors may find informative in making investment decisions twenty years from now. Further, information that may be relevant to evaluating one company or fund might not be informative

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[2] Morningstar, "A Broken Record: Flows for U.S. Sustainable Funds Again Reach New Heights" January 2021. https://www.morningstar.com/articles/1019195/a-broken-record-flows-for-us-sustainable-funds-again-reach-new-heights

[3] Securities and Exchange Commission, Request for Comment on Fund Names. March 2020. https://www.sec.gov/news/press-release/2020-50

[4] U.S. Chamber of Commerce, U.S. Chamber of Commerce Foundation, "Project for Growth, Opportunity & Innovation: ESG Reporting Best Practices." Fall 2019. Pg. 2. https://www.projectgo.com/esg-reporting-best-practices/

[5] U.S. Chamber of Commerce, Center for Capital Markets Competitiveness, "Climate Change and ESG Reporting from the Public Company Perspective. 2021 Survey Report. https://www.centerforcapitalmarkets.com/wp-content/uploads/2021/08/CCMC_ESG_Report_v4.pdf

when evaluating others, and in fact could be misleading if required to be reported when that information is not material.

The adoption of a climate and sustainability-related disclosure regime based upon a principles-based approach would allow regulators to preserve the flexibility of disclosing entities to respond to their business and industry circumstances while maintaining consultations with their investor base to provide material information. This is an important template for the potential disclosure of other ESG and sustainability-related issues and avoids a one size fits all disclosure that could prove to be counterproductive for investor protection, capital formation and competition.

Conclusion

The Chamber appreciates your consideration of these views on ESG and sustainability-related disclosures. We look forward to an ongoing dialogue with you as IOSCO explores these important issues in the future.

Sincerely,

Tom Quaadman