18 August 2021

International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid
Spain

Via email consultation-01-2021@iosco.org

Dear Board,

Sustainability-related Disclosures for Asset Managers, Greenwashing and other Investor Protection concerns

CPA Australia and Chartered Accountant Australia and New Zealand (together 'the Major Australian Accounting Bodies) welcome the opportunity to respond to *Recommendations of Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management* (the "Consultation Paper"). Together, we represent over 280,000 professional accountants in Australia, New Zealand and around the world.

While we hold different views to some of the recommendation made in the Consultation Paper, we welcome the overall direction of the recommendations and agree with the principles underlying most of these recommendations.

We recommend that not only do asset managers need to improve their sustainability practices and disclosures, but so do asset owners, financial institutions and companies in the real economy, along with the public sector. All have a role to play and are highly interdependent in national and international endeavours for addressing the wide range of material ESG/ sustainability challenges ahead of us (e.g. climate change, biodiversity loss, cybersecurity, diversity and inclusion, employment equality).

Please see attached answers to the questions included in the Consultation Paper.

If you require further information, or elaboration on the views expressed in this submission, please contact: at CPA Australia, Dr John Purcell at john.purcell@cpapaustralia.com.au or at CA ANZ Karen McWilliams at Karen.McWilliams@charteredaccountantsanz.com.

Yours sincerely

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APPENDIX

Question 1: 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?

We support prescriptive recommendations about the basic building blocks (i.e. metrics and methodologies used) and high-level principle-based recommendations for how those basics are pulled together into specific regulations. This allows for local nuances in individual jurisdictions.

Sustainability-related risks are an important issue about which companies need to pay more attention. These risks should be incorporated into existing risk management frameworks and subject to appropriate consideration. That is, sustainability-related practices, policies, procedures and disclosure (PPPD) should be considered alongside traditional risks. Existing supervision and enforcement tools that regulators have should be sufficient to deal with any misleading claims made by asset managers about their sustainability risks and practices and misrepresentation of their products.

A major issue for improving the PPPD is the availability and quality of data, particularly for emerging markets where understanding of sustainability is lagging in comparison to developed markets. The data quality and availability issues must be addressed to help asset managers to make more informed investment decisions. Regulators should help to address this data issue by promoting best practices for disclosure and by enforcing disclosures for certain areas of sustainability (e.g. climate change and carbon emissions). Penalties imposed on asset managers should take into consideration the sustainability data that can reasonably be expected of being available.

Question 2: The key areas identified are based on the key pillars of the TCFD Framework. Do you agree with this approach?

We agree with this approach and support the alignment with the four pillars of the TCFD Framework and disclosure around these pillars. These help to set the path for a consistent minimum level of disclosure across industry, countries and regions, which will be helpful to asset managers with operations in multiple markets and regions. Moreover, the reference to TCFD is consistent with measures that a number of jurisdictions currently either mandate, or make reference to, in their regulations.

Further we support this approach for other non-climate material aspects of sustainability (e.g. modern slavery, diversity and inclusion, water risk). In our view, the four pillars – Governance, Strategy, Risk Management and Metrics & Targets – are applicable to other type of sustainability risks beyond climate. In these regards, we draw attention to the work of the Taskforce on Nature-related Financial Disclosures launched in 2019, with a proposal to develop a framework for consultation in 2023.

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Question 3: 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?

The scope of recommendation should cover all asset managers, as sustainability-related risks and opportunities should be considered by all investors in their investment decisions. We recognise that some asset managers would take a shorter investment horizon (e.g. arbitrage funds, event driven hedge funds) which seem to be against sustainability considerations which may take longer time frames to be realised. For those cases, we consider fund managers should be required to declare that they do not take into consideration sustainability-related risks and/ opportunities, i.e., they need to make a negative statement. Where fund managers make such an explicit statement, the PPPD would not apply. This too is an important element in stakeholder risk management.

Question 4: 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?

We believe it is generally difficult to have a clear-cut distinction between products of sustainability-related investment opportunities and products of sustainability-related characteristics, unless regulators clearly define these two types of products. If IOSCO is referring to the two approaches to which the investment community refers, i.e., ESG integration and impact investment, then we believe this is already relatively clear cut and the need to differentiate between funds using these two types of approaches is already apparent. However, if IOSCO is referring simply to measuring the degree of impact, then it is very challenging to differentiate between the two just from disclosure requirements. We note also that particularly with global pension funds, both of these product characteristics may be evident.

Based on the above, we believe that there should be one set of disclosure requirements for both products. What is more critical are the details of disclosure, to ensure that there is sufficient transparency for investors to understand and choose what they want to achieve in terms of sustainability. To avoid greenwashing, socialwashing or mis-selling for retail investors, the labelling is the issue on which regulators need to focus. For example, if “impact” or other words that have similar meanings are used, then there is a greater need for further clarification and disclosure. Institutional investors/professional investors should presumably have sufficient knowledge to understand if the funds’ objective align with what they want.

Question 5: Should naming parameters permit the product name to reference sustainability only if the investment objectives refer to sustainability?

We agree with this suggestion, i.e., that naming parameters should be linked to the objectives of the funds, specifically funds distributed in retail markets. We note though that some funds may only carry a required small sustainability-based component, so there may need to be some flexibility in these regards. This highlights the need for a taxonomy to guide product naming.

Question 6: Should a product need to have an ESG, SRI or similar label in order to be marketed as a sustainability-related product?

This type of disclosure forms a key element in investor protection. Taking Recommendation 2 as context, national securities regulators should take positive measures to ensure that such product characteristics are suitably displayed and, indeed, matched in reality.

Question 7: Do you agree with the specified areas of investment strategies disclosure?

Yes, we agree with this proposal.

Question 8: Should the disclosures address how past proxy voting and shareholder engagement records align with the investment objectives or characteristics of a sustainability-related product?

Disclosure of engagement and proxy voting records potentially helps demonstrate alignment of a sustainability-related product with its underlying sustainability objectives as stated in its product materials.

More broadly, the disclosure requirements for products that aim to achieve certain positive sustainability-related impacts should be higher than those that promote sustainability with no sustainability-related impacts stated in the product materials and names/labels of the products. The principle of disclosure should use a "comply or explain" approach, i.e., the asset manager should disclose at a product-level as well as a firm-wide level, or they should explain why they choose not to disclose at a product level for specific or all products.

Further, asset managers should be given the flexibility to choose the format of disclosure, i.e., disclosing information for individual products in separate reports or disclosing information for all products in firm-wide reports.

Question 9: Should securities regulators and/or policymakers, as applicable, also address the format and presentation of marketing materials and website disclosure for sustainability related products?

Regulators and/or policymakers should also address the format and presentation of marketing materials and website disclosure for sustainability-related products that are distributed to retail investors. The regulatory requirements for the format and presentation of the marketing materials and website disclosure should be at a high-level, principles-based and easy to understand.

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Question 10: 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?

Regulators and/or policymakers should encourage the use of metrics or key performance indicators (KPIs) to assess, measure and monitor the sustainability-related product's compliance with its investment objectives and/or characteristics.

We highly recommend the use of a standardised approach for metrics or KPIs. This will enable better comparability of metrics or KPIs among products. However, metrics and KPIs for measuring sustainability-related performance are still evolving and as a result, it is appropriate, for now, for asset managers to have the option to select their own metrics. Further regulators and/or policymakers should be careful when deciding on which metrics or KPIs they encourage asset managers to use, even when their use is not mandatory.

Question 11: 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?

Yes, periodic reporting should include both quantitative and qualitative information about whether a sustainability-related product is meeting its sustainability-related investment objectives and/or characteristics. This is important given the challenges associated with the development of metrics and KPIs for measuring sustainability-related performance (see our response to Question 10).

Question 12: 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?

Yes, we agree with this suggestion.

Question 13: 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?

An example of terms developed by international organisations that should be considered by securities regulators and/or policymakers include the *Glossary of commonly used terms* in the UN PRI Reporting Framework. *Exclusion Investments*, *Inclusion investment* and *Impactful Investment*, which are also referred to by the Institute of International Finance.

Impact investment is a commonly used term, but its definition needs to be clarified to avoid misunderstanding of or misrepresentation of the term. The *Operating Principles for Impact Measurement,* which is endorsed by International Finance Corporation and many asset managers around the world, provides an important reference. Over and above theis market participant specific guidance, a key source of reference will be the EU Taxonomy of environmentally sustainable economic activities.

Question 14: 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?

Yes, we agree with this suggestion. Education is critical to align investors' interests and understanding of the subject. It is important for all investors to know what sustainable investing is, why it is important and meaningful, and be clear about common myths (e.g., doing good means sacrificing financial returns), so that sustainable investing can achieve its objectives. We point to the central banks' initiatives under the umbrella of the Network for Greening the Financial System as playing an important educative and capacity building role in these regards.

Question 15: 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?

Sustainability is a key education topic for all types of investors. Every market should have a structured education program that covers overall sustainability matters and major issues of environmental, social and governance that affect the sustainability of the local economy and people. Securities regulators—which are typically concerned with finance and investment—may only cover part of the landscape of sustainability, and may need to coordinate with other government bodies via working groups to formulate the strategies and plans to promote sustainability.

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