

1 April 2019

Mr. Paul P. Andrews
Secretary General
The International Organization of Securities Commissions



Ms. Raluca Tircoci-Craciun
Head of Growth and Emerging Markets, Implementation Monitoring and Senior Policy Advisor
The International Organization of Securities Commissions

Re: IOSCO Consultation Report “Sustainable finance in emerging markets and the role of securities regulators” and “Statement on Disclosure of ESG Matters by Issuers”

Dear Mr. Andrews and Ms. Tircoci-Craciun,

The Institute of International Finance (IIF) and its membership comprising broad representation of the global financial industry (“the industry”) appreciate the opportunity to provide comments on the International Organization of Securities Commissions (IOSCO) consultation report CR01/2019 *Sustainable finance in emerging markets and the role of securities regulators* (the "[Consultation Report](#)"). We are also taking this opportunity to comment on the 18 January 2019 *Statement on Disclosure of ESG Matters by Issuers* (the "[Disclosure Statement](#)"). The comments in this letter have been informed by discussions of the IIF Sustainable Finance Working Group (SFWG), chaired by Daniel Klier (Group Head of Strategy and Global Head of Sustainable Finance, HSBC). Membership of the SFWG includes commercial and investment banks, asset managers, and insurance companies from a broad range of jurisdictions including both in developed and emerging markets.

The IIF strongly supports the objective of the IOSCO Principle 16¹ and IOSCO’s effort to support sustainable economic growth. To this end, we welcome the underlying policy goals of developing measures that are relevant and meaningful supplements to existing requirements. The IIF agrees with the view expressed in the Disclosure Statement that while ESG matters are sometimes characterized as non-financial, they may still have material short- and long-term impacts on the business operations of issuers and thus on risks and returns for investors and their investment and voting decisions. This view has informed the framework for a number of recent disclosure efforts including the FSB Task Force on Climate-related Financial Disclosures (the "TCFD") and aspects of the European Commission Action Plan on Sustainable Finance (the "EC Action Plan").

As part of our ongoing efforts to contribute to the development of an effective policy framework—and to the transition to a low-carbon economy—our detailed responses to the proposed principles are set out in the following pages. In the first instance, we wish to highlight the following general comments and concerns relevant to both the Consultation Report and the Disclosure Statement:

¹ Principle 16: There should be full, accurate and timely disclosure of financial results, risk and other information which is material to investors’ decisions. See here <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD562.pdf>

General comments

Risks of Fragmentation

The IIF recently submitted a letter to the Financial Stability Board (FSB) commenting on the need for enhanced global regulatory coordination and cooperation to counter increasing levels of regulatory and market fragmentation² and the associated risks for financial stability and economic growth. We would underscore that divergent regulatory and disclosure standards on ESG issues could be a key source of such fragmentation. Moreover, climate change can have devastating external consequences across jurisdictions, and the cross-border scope of sustainable finance activity further underscores the importance of international regulatory coordination and cooperation. Indeed, the most pressing ESG issues, including climate change and migration, cannot be fully addressed at the national level nor by a single sector, making it imperative to support internationally consistent and harmonized taxonomy and disclosure. Accordingly, the IIF submitted a letter late last year to the Central Banks and Supervisors Network for Greening the Financial System (NGFS) and commented on the UK Prudential Regulation Authority (PRA) consultation on a supervisory statement for the financial risks of climate change discussing the risk of fragmentation in the emerging domain of sustainability-related regulation.

Given the far-reaching risks posed by fragmentation, the IIF would encourage IOSCO to direct the Consultation Report not only to emerging market securities regulators but also to those in developed markets. The issues covered are applicable across the board, and as the paper makes clear in Chapters 3 and 4, there are disclosure-related initiatives underway in both developed and emerging markets. Thus, while we appreciate that the Consultation Report was developed by the IOSCO Growth and Emerging Markets Committee (GEMC), the IIF encourages further discussion within IOSCO to work towards an international consensus that limits further fragmentation of regulation on such an important topic.

The Disclosure Statement explicitly notes that it does not supersede existing laws, regulations, guidance or standards or relevant regulatory or supervisory frameworks in specific jurisdictions. The Consultation Report is described as a set of proposed recommendations that member jurisdictions should consider when issuing regulations or guidance regarding sustainable instruments and additional disclosure requirements with respect to ESG-specific risks. As noted above, some jurisdictions have implemented (or are in the process of implementing) legislative requirements (e.g. the EU Non-Financial Reporting Directive and its national-level implementations). Other jurisdictions have disclosure requirements tailored to specific industries or instruments (e.g. the People's Bank of China and the China Securities Regulatory Commission Guidelines on Green Bond Certification; France's Article 173 on the Energy Transition Law). Others have taken a "comply or explain" or voluntary approach, for example in the context of corporate governance or stewardship codes (e.g. UK, Brazil) or listing requirements (e.g. South Africa, Hong Kong). The range of approaches reflects a nascent divergence of sustainability disclosure regulations, which is part of our concern about fragmentation.

² See IIF report Addressing Market Fragmentation: The Need for Enhanced Global Regulatory Cooperation (January 2019) here <https://www.iif.com/Publications/ID/3222/IIF-Report-on-Market-Fragmentation-and-Need-for-Regulatory-Cooperation>

Last, but not least, at the global level, we would advocate that standard setters take a more coordinated approach when issuing recommendations or guidelines related to ESG-specific issues. In 2018, the International Association of Insurance Supervisors (IAIS) proposed climate-related supervisory recommendations in the *Issues Paper on Climate Change Risks to the Insurance Sector* (the “Issues Paper”). In its reference to the TCFD recommendations, the IAIS suggested that the recommendations and supplemental guidance of the TCFD may be helpful for supervisors as an example of how the Insurance Core Principles (ICP) could be applied in a climate change context. For example, one TCFD-recommended disclosure, “the impact of climate related risks and opportunities on the organization’s businesses, strategy, and financial planning”, could be applied through both ICP7, Corporate Governance, and ICP 20, Disclosure³. As such, although some coordinating efforts are seen, they are not enough, and complication remains. It is encouraged that international standard setters work more closely and coordinate to avoid unnecessary overlap. More broadly, we recommend a cross-sectoral and internationally aligned approach to recommendations on ESG-specific disclosures in order to advance a consistent framework and minimize duplicative efforts.

Importance of a Voluntary, Market-led Approach to Disclosure and ESG Issues

Before any recommendation to adopt mandatory disclosure requirements, IOSCO should carefully consider current methodological and data limitations. It is a widely held concern that issuers cannot disclose meaningful information without appropriate methodology and data, and as the Prudential Regulation Authority (PRA)⁴, Banque de France⁵, and United Nations Environment Programme Finance Initiative (UNEP FI)⁶ have acknowledged, there are significant limitations on methodology and data concerning the risks posed by climate change. In some instances, there is no historical data available. In other cases, the data is insufficiently granular or is not linked to specific assets or insurance liabilities in a way that would allow for inclusion into models. In all cases, the historical data may fail to account for potential step changes in the physical environment or policy adjustments that would modify the economic environment. Similar challenges with respect to methodology and data apply to the assessment of other ESG risks. The IIF response to the PRA consultation describes these challenges in detail, and the IIF SFWG is planning to continue work on these issues in 2019-20.

The Consultation Report recommends that “the existing globally recognized disclosure standards could be referenced when regulators develop disclosure requirements in their jurisdiction.” While the recommendations of the TCFD are widely known and respected, it should be acknowledged that there is currently no globally-accepted and implementable disclosure standard. Indeed, TCFD recommendations themselves still pose key implementation challenges in terms of comparability. For example, different firms may use varying metrics, making it difficult to compare disclosures on a like-for-like basis. More broadly, disclosed

³ Table 2: Links between FSB TCFD Recommendations and IAIS ICPs, *Issues Paper on Climate Change Risks to the Insurance Sector*, IAIS, July 2018

⁴ <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/transition-in-thinking-the-impact-of-climate-change-on-the-uk-banking-sector>

⁵ See the Banque de France’s report, *Evaluating Climate Change Risks in the Banking Sector* (August 2015) here <https://www.tresor.economie.gouv.fr/Ressources/File/447123>

⁶ See UNEP FI’s reports, *EXTENDING OUR HORIZONS, PART 1: Transition-related risks & opportunities* (April 2018) here <http://www.unepfi.org/publications/banking-publications/extending-our-horizons/>, and *Navigating A NEW CLIMATE, PART 2: Physical risks and opportunities* (July 2018) here <http://www.unepfi.org/publications/banking-publications/navigating-a-new-climate-assessing-credit-risk-and-opportunity-in-a-changing-climate/>

information is only valuable when it is consistent, understandable and comparable.⁷ The Consultation Report itself references significant variance in disclosure standards, e.g. the Global Reporting Initiative (GRI)'s Sustainability Reporting Standards (GRI Standards) and the International Integrated Reporting Council (IIRC)'s International Integrated Reporting Framework. Efforts should be made to better align these standards before adopting further recommendations for disclosure. In sum, disclosure requirements that refer to existing standards would fall short of being an effective solution. Further international discussion of taxonomy, metrics and disclosure standard practices—both within the financial services community (banks, insurers, asset managers, etc.) and across sectors—should be encouraged.

Given the urgency of addressing ESG issues, notably climate change, the IIF understands the need to move as rapidly as possible to develop a proactive approach from the industry. Indeed, climate-related disclosures should be addressed first before rushing into ESG disclosures in general so that we can ensure that scarce resources can focus on climate change, which is an imminent potential financial stability risk. However, in light of the challenges outlined above it is also important to ensure that international policies are carefully designed so that they neither endanger financial stability nor risk misleading market participants. Under ordinary circumstances, risk measurements and disclosures would be developed after designing taxonomy and accumulating relevant data. Currently, however, initiatives are underway simultaneously in each of these areas, highlighting the importance of harmonization and complementarity across initiatives. In this context, a rush to develop mandatory disclosure requirements—when there are still substantial gaps in disclosure standards, methodology or data—may have adverse effects such as misleading stakeholders or increasing the risk of “greenwashing.” A better approach would be to leverage ongoing advances in methodology and better data availability to facilitate ESG risks and opportunities evaluation. This would encourage more issuers to disclose relevant information even in the absence of mandatory disclosure requirements.

Beyond climate-related disclosures, IIF members broadly support a market-led corporate governance and stewardship paradigm based on the idea that corporations and financial institutions can forge meaningful and successful private-sector solutions to long-term challenges. More and more firms are recognizing that ESG considerations are critical for long-term success. At the same time, financial institutions are very aware of the importance of creating shared value⁸ with clients and having solid corporate governance and stewardship^{9 10} to sustain long-term financial returns. A market-led approach to corporate governance and stewardship would enable financial institutions and their clients—who share the same long-term interests—to cultivate open and candid dialogue and engagement to help address ESG issues. As the financial services industry develops a more long-term focus on ESG issues, including

⁷ See Enhanced Disclosure Task Force's fundamental seven principles for risk disclosure (October 2012) here http://www.fsb.org/wp-content/uploads/r_121029.pdf

⁸ Japanese Financial Services Agency (JFSA) says “The sustainability of a bank would ultimately hinge upon what shared values it creates with their customers.” See here <https://www.fsa.go.jp/common/conference/danwa/20160413/01.pdf>

⁹ Blackrock's letter to CEOs says "to prosper over time every company must not only deliver financial performance but also show how it makes a positive contribution to society." and "profits and purpose are inextricably linked....and purpose guides culture, provides a framework for consistent decision making, and, ultimately helps sustain long-term financial returns for the shareholders of your company." See here <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

¹⁰ See *The New Paradigm* as articulated by Martin Lipton here <https://corpgov.law.harvard.edu/2019/02/11/its-time-to-adopt-the-new-paradigm/>

disclosure, stewardship and corporate governance, there should be less need for prescriptive regulatory approaches or top-down legislative and regulatory mandates.

Distinguishing the Goals of Disclosure—Firm Risk or Environmental/Social Risk?

Although both the Consultation Report and the Disclosure Statement reference various initiatives¹¹ around disclosure, any disclosure framework should distinguish whether the goal is to inform on material risks *to* a company arising *from* environmental, social and governance issues or to disclose the material risks *from* a company's activities *to* broader environmental or social matters. These are very different concepts that require a differentiated approach. The former (i.e. "risk to the company") is more aligned with financial disclosure requirements¹². This approach to financial materiality has been adopted by the SEC formally for accounting purposes¹³ and by the PCAOB for auditing purposes.¹⁴ It is also the basis on which some current sustainability disclosure standards are modelled (e.g. those of TCFD and SASB).

The latter (i.e. "risk to environment and society") is a different perspective, relevant for broad stakeholders as well as corporate shareholders. It asks firms to disclose the impact that their operations have on any environmental, social or governance issues that may be considered material by stakeholders (often broadly defined to include not just shareholders but also employees, customers, and interest groups more generally). This perspective is adopted by the Global Reporting Initiative ("GRI", which forms the basis for most firms' sustainability reports)¹⁵ as well as the EU Non-Financial Reporting Directive.¹⁶ For instance, regarding climate change, we need to achieve both the goal of the TCFD (i.e. clarifying financial risks and opportunities from climate change) and that of the Paris Agreement (i.e. lowering CO₂e emissions). These goals are both related and inseparable. Some innovative voluntary disclosure examples have begun to appear, incorporating both these objectives in a single disclosure framework, and we expect more such approaches in the future.

In the Disclosure Statement, however, the usage of "materiality" appears to imply that the relevant concept is confined to "risk to the company." That is a useful starting point but may be too narrow a concept to suit the needs of investors and other stakeholders (including financial

¹¹ Various initiatives include, but not limited to; the Global Reporting Initiative (GRI) <https://www.globalreporting.org/Pages/default.aspx>; the CDP (formerly Carbon Disclosure Project) <https://www.cdp.net/en/info/about-us>; the Sustainability Accounting Standards Board (SASB) <https://www.sasb.org/>; and the International Integrated Reporting Council (IIRC) <http://integratedreporting.org/>. Additionally some companies are building disclosure standards by way of reference to other constructs such as the UN Sustainable Development Goals (SDGs) or the UN Global Compact.

¹² TSC Industries, Inc v. Northway Inc, 426 U.S. 438, 449 (1976) - For example, in the US the common definition of materiality with respect to financial reporting is largely based on the US Supreme Court definition; "An omitted fact is material if there is a substantial likelihood that a reasonable shareholder would consider it important in deciding how to vote...Put another way, there must be a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available"

¹³ See Adoption of Integrated Disclosure System, Securities Act Release No. 6383 (Mar 3, 1982), 47 Fed. Reg. 11, 380 (Mar 16, 1982)

¹⁴ Auditing Standards No. 11 – Consideration of Materiality in Planning and Performing an Audit, PCAOB Release No. 2010-004 (Dec 15, 2010)

¹⁵ See KPMG Survey of Corporate Responsibility Reporting 2017 which found that 75% of the world's largest 250 companies use GRI as the basis for their sustainability reporting.

¹⁶ EU Non Financial Reporting Directive requires disclosure of firms' policies on ESG matters, the outcome of those policies, and the principal risks related to those matters linked to the undertaking's operations. See EU Directive 2014/95/EU

institutions) that require more information to understand the risk profile of companies' activities—particularly in cases where future liability or transition risks are elevated.

For example, a recent EY survey of 220 institutional investors found that 97% of respondents evaluate firms' non-financial disclosures and almost 60% would support prescriptive accounting standards for non-financial information.¹⁷ Thus, we believe it would be helpful for the Disclosure Statement and Consultation Report, once finalized, to more directly reference the broader notion of disclosure that is important for a wide range of stakeholders, including (but not limited to) investors.

However, this recommendation for a broader notion of disclosure confers no right on stakeholders to demand information about all ESG company issues. The concept of materiality should govern disclosures, both of material financial risk to the company and of material impact of a company on the environment and society. This aligns with one of the consensus positions reached in the discussion of various global investor organizations in the "Investor Agenda for Corporate ESG Reporting" adopted by the Corporate Reporting Dialogue.¹⁸

Material Risk to a Company from ESG Issues – Regulatory Reporting vs Disclosure

Regarding material risks to firms arising from ESG issues, we would suggest that the current definition of material ESG-specific issues and risks may be overly broad. Commercially-sensitive or highly technical information could compromise an issuer's strategic or competitive positioning while also failing to provide substantial benefits to the recipients of that information. In the IIF response to the revised ICP 20 Consultation, we pointed out that in many cases there is conflation of public disclosure and regulatory reporting, which contain different types of information and fall under the remit of different authorities. Regulatory reporting often includes proprietary and commercially sensitive information, or speculative and forward-looking information that may be inappropriate for disclosure to investors or non-regulatory stakeholders. In the Consultation Report and the Disclosure Statement, some of the recommended disclosure may be more appropriate for reporting to prudential regulators (such as information in Own Risk and Solvency Assessment [ORSA] documentation for insurance authorities or Internal Capital Adequacy Assessment Process [ICAAP] documentation for banking authorities) or in the context of dedicated supervisory reviews.

Case in point: risk appetite among insurers is typically business-sensitive, meaning that insurance companies cannot disclose physical risk assessment results directly to the general public because it affects their underwriting policies. Such business-sensitive information should only be disclosed to regulators in a cautious manner. In another example, location data of oil wells is quite relevant to an investor's or lender's physical risks assessment regarding oil and gas firms, but this information is proprietary and commercially-sensitive for such energy companies because it directly relates to strategic aspects of the business. Therefore, public sector intervention could prove necessary in such cases where private sector action alone is insufficient. Given common aspirations around sustainable finance, the IIF would be pleased to continue to contribute to explore ways to address these issues with IOSCO as well as with other international standard-setters.

¹⁷ EY, *Does your nonfinancial reporting tell your value creation story?* 2018

¹⁸ The Corporate Reporting Dialogue is a collection of investor groups including CERES, CFA Institute, GIIN, GSIA, ICGN, PRI and UNEP-FI. For more see <http://integratedreporting.org/news/iirc-welcomes-investor-agenda-for-corporate-esg-reporting/>

In addition, disclosing material ESG-specific issues may entail the release of highly technical information that may fail to resonate with a non-technical audience and potentially cause confusion and distort incentives. We believe that disclosures should be simple, effective and meaningful, requiring that disclosure requirements be carefully designed and calibrated by considering the appropriate quantity and granularity of disclosure information.

Specific Comments on the Consultation Report:

1. Risk Appetite

Recommendation 1¹⁹ of the Consultation Report suggests that issuers and other regulated entities should integrate ESG-specific issues, where these are material, in the overall risk appetite and governance of these entities. As the IIF noted in its response to the PRA consultation and as articulated in *The New Paradigm* cited above, the expectation that a firm's Board engage in understanding and assessing financial risks from climate change (and other material ESG-issues) is appropriate.

However, as the IIF also noted in its response to the PRA consultation, at this stage in the journey towards better understanding financial risks from climate change, risk appetite is more appropriately expressed qualitatively rather than quantitatively. Further data needs to be sourced to develop quantitative risk appetite measures, and initiatives such as the TCFD will gradually enhance the availability of such data.

2. Disclosure and Data Quality

Recommendations 2²⁰ and 3²¹ of the Consultation Report suggest that issuers and collective investment schemes should disclose material ESG-specific risks (including transition risks) and opportunities in relation to governance, strategy and risk management. The recommendations also suggest that regulators seek to ensure adequate data quality.

As the IIF noted in its letter to the PRA, banking organizations can be expected to disclose material financial risks from climate change and other ESG risks per BCBS (Basel Committee on Banking Supervision) Pillar 3 requirements and broader financial and non-financial disclosure requirements. Most large banking organizations and insurance groups are also subject to disclosure requirements imposed on publicly-traded companies. It would be helpful if these disclosure requirements were to result in consistent and comparable reporting standards.

Given that there are already many disclosure requirements, and given that, as mentioned in the General Comments section, there are currently many significant challenges such as limitations on data and methodology, and the lack of globally-comparable disclosure practices, it would be helpful at this stage to avoid new disclosure requirements, particularly on climate-related issues,

¹⁹ **Recommendation 1: Integrating ESG-specific issues in overall risk appetite and governance.** Issuers and other regulated entities should integrate ESG-specific issues, where these are material, in the overall risk appetite and governance of these entities.

²⁰ **Recommendation 2: ESG-specific disclosures and reporting.** Regulators should require disclosure with regard to material ESG-specific risks (including transition risks) and opportunities in relation to governance, strategy and risk management of an issuer or CIS.

²¹ **Recommendation 3: Data quality.** Where regulators determine that additional ESG-specific reporting is needed (in accordance with Recommendation 2), regulators should aim to ensure adequate data quality for ESG-specific reporting, including, among others, through updating listing rules, the use of external reviews and through the operation of other information service providers e.g. credit rating agencies (CRAs), benchmarks and auditors.

but instead refer to the TCFD with respect to climate change disclosures. In our view, the TCFD initiative properly emphasizes the convergence and consistency of disclosures. Bespoke disclosure requirements may run counter to this focus on convergence and consistency, create burdens for firms, and lead to confusion among users of disclosure. We acknowledge that there is still much work needed on disclosure details and "what good and comparable disclosures should look like." Therefore, this is a task the IIF SFWG has prioritized for 2019-20.

Regarding data quality, we reiterate that data is one of the key challenges when it comes to understanding ESG-related financial risks. While it would likely be possible to generate indicative results for internal dialogue on risk appetite, risk management and mitigation, it currently seems overly ambitious to expect data quality to be sufficient for regulatory purposes (e.g., for updating listing rules, etc. per Recommendation 3). More broadly, granular disclosure should not be required nor expected until data quality improves.

Separately, while the TCFD recommends disclosing information in financial statements, it is important to be aware that both non-financial corporates and financial firms have concerns about disclosing potentially misleading information for which they may be held liable. As a first step, a less formal means of disclosure could allow firms to share preliminary assessments of climate-related financial risks, encouraging proactive communication with the market.

3. Sustainable Investments

Recommendations 4 through 9²² of the Consultation Report are intended to promote integrity in the development of sustainable investment instruments with a particular focus on defining sustainable instruments and eligible projects; establishing regulatory requirements for adequate offering documents, ongoing disclosure requirements and proper use of funds; and considering the use of external verification reviews. While the underlying aim of these recommendations is clear, authorities should recognize that ongoing work is needed to develop a common understanding of what should be considered "sustainable." The EU work on taxonomy is a key example, and the IIF SFWG has developed a separate paper on the taxonomy concept. A key consideration is to ensure that any taxonomy not be so narrowly defined as to marginalize what

²² **Recommendation 4: Definition of sustainable instruments.** Sustainable instruments should be clearly defined and should refer to the categories of eligible projects and assets that the funds raised through their issuance can be used for.

Recommendation 5: Eligible projects and activities. Funds raised through sustainable instruments should be used for projects and activities falling under one or a combination of the broad ESG categories listed below:

- Environmental (renewable resources; combatting/mitigating climate change; pollution and waste; and other environmental opportunities);
- Social (human capital; product liability; and other social opportunities);
- Governance (corporate governance; corporate behaviour).

It will be up to each GEMC member to define the list of eligible projects and activities for their jurisdictions, taking into account that an eligible project or activity cannot, at the same time, do any significant harm to any other ESG categories.

Recommendation 6: Offering document requirements. Regulators should establish requirements for the offerings of sustainable instruments including, amongst others, the use and management of the funds raised through the issuance of such instruments, and the processes used by issuers for project evaluation and selection.

Recommendation 7: Ongoing disclosure requirements. Regulators should establish ongoing disclosure requirements regarding the use of the funds raised through the issuance of sustainable instruments including the extent of unutilized funds, if any.

Recommendation 8: Proper use of funds. Regulation should provide for measures to prevent, detect and sanction the misuse of the funds raised through the issuance of sustainable instruments.

Recommendation 9: External reviews. Issuers should consider the use of external reviews to ensure consistency with the definition of the sustainable instruments as provided in Recommendation 4.

is considered sustainable investment. It is also vital to recognize the transition pathways that are required as firms seek to become more sustainable in their business models over time. It is important to be aware that defining the list of eligible projects and activities ex-ante is challenging because many projects may comprise a mix of sustainable and “non-sustainable” activities and because such restrictions might limit future innovation. The validity of external reviews should also be considered per Recommendation 9, as special expertise may be needed to categorize whether an activity is sustainable, depending on the complexity of taxonomy. We believe that transparent and effective disclosures would work better to achieve the objectives of these recommendations, and thus it would in our view be preferable to focus on the issues surrounding disclosures before devising additional regulatory requirements.

The IIF also supports efforts to simplify investment terminology as a way to facilitate investors’ understanding of investment products and scale up sustainable investment. We thus welcome the focus of the EC Action Plan on suitability and product governance requirements but note that further industry convergence may be required before detailed and prescriptive requirements can be implemented. We remain cautious about detailed regulatory approaches at this stage, particularly in light of our comments on market fragmentation above.

4. Incorporating ESG Factors into Investment Processes

Per recommendation 10²³ institutional investors, consistent with fiduciary duty, should incorporate ESG-specific issues into their investment analysis, strategies and overall governance and take into account material ESG disclosures of the entities in which they invest. As the industry continues to evolve, IIF members are making significant progress this front, formalized into statements on engagement and stewardship for their investment holdings. Here too, simplification of sustainable investment terminology would help.

Institutional investors are strongly committed to progress not only on incorporating ESG issues into investment processes but also on how they communicate to and work with clients. Thus, the IIF supports Recommendation 11²⁴ that regulators analyze gaps in capacity and expertise with respect to ESG-related issues both in regulated institutions but also more broadly in the industry. Regulators and supervisors can provide a useful convening forum as evidenced by the work of the NGFS. IIF members are committed to supporting such efforts and finding a sound balance between global and local activities to help ensure aligned approaches across markets.

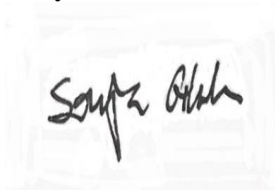
²³ **Recommendation 10: Institutional investors.** Consistent with their fiduciary duties, institutional investors, including asset managers and asset owners, should incorporate ESG-specific issues into their investment analysis, strategies and overall governance, and take into account material ESG disclosures of the entities in which they invest.

²⁴ **Recommendation 11: Building capacity and expertise for ESG issues.** Regulators should analyse the gaps in capacity and expertise with regard to ESG-related issues mentioned in the above recommendations and consider targeted capacity building to address these gaps. Regulators should also have appropriate monitoring mechanisms in place to encourage application of these recommendations.

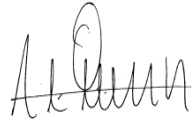
Conclusion

The IIF hopes that the comments above will contribute to helping securities regulators set appropriate guidelines and expectations in their markets. We would appreciate the opportunity to discuss any of these matters further and invite you to contact us with questions or comments.

Sincerely,

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Sonja Gibbs
Managing Director
Global Policy Initiatives

A handwritten signature in black ink, appearing to read "Andrés Portilla", is centered within a light gray rectangular box.

Andrés Portilla
Managing Director
Regulatory Affairs