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Delivered By Email: consultation-01-2021@iosco.org

International Organization of Securities Commissions

Dear Sirs and Mesdames:

RE: Public Comment on *Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management*

The Investment Funds Institute of Canada (**IFIC**) appreciates the opportunity to comment on the IOSCO *Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management Consultation Report* (**Consultation**).

IFIC is the voice of Canada's investment funds industry. IFIC brings together approximately 150 organizations, including fund managers, distributors and industry service organizations to foster a strong, stable investment sector where investors can realize their financial goals. IFIC operates on a governance framework that gathers member input through working committees. The recommendations of the working committees are submitted to the IFIC Board or board-level committees for direction and approval. This process results in a submission that reflects the input and direction of a broad range of IFIC members.

IFIC supports regulatory guidance aimed at improving the disclosure of ESG practices, policies and procedures, as well as specific ESG considerations. IFIC recommends that any guidance should support existing regulatory frameworks and not impose a higher regulatory standard on investment products with sustainability or ESG-related strategies compared to investment products that do not.

In terms of aiming "to improve sustainability-related practices, policies, procedures and disclosures in asset management", IFIC believes that asset managers are solely responsible for setting investment goals and objectives and choosing the investment style and approach to meet those objectives. It should not be the goal of securities regulation to direct asset managers or particular products towards sustainability-related practices. While many investment funds and other products in Canada and around the world have adopted sustainability and ESG practices, policies and procedures, this should not be mandated though regulation or guidance.

With respect to risks associated with ESG factors, securities regulation in Canada requires investment funds to disclose all aspects of risk in a prospectus, including sustainability or ESG risk. Given the currently regulatory framework with respect to risk disclosure, additional regulation in this area would not be beneficial.

IFIC does agree with the Consultation's observation that within asset management there is a lack of consistency with respect to sustainability-related and ESG terminology and classification. As the Consultation observes, there are already well-developed industry-led global and domestic initiatives underway to develop and harmonize terminology and classification for sustainable and ESG-related investment strategies and products. We believe that the industry is well placed to continue and complete this work with subsequent evaluation by regulators and other stakeholders.

IFIC is pleased to have had this opportunity to provide our comments to IOSCO. Detailed responses are provided below.

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Please feel free to contact me by email at ibragg@ific.ca or by phone at 416-309-2325. I would be pleased to provide further information or answer any questions you may have.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

By: Ian Bragg
Vice President, Research & Statistics

Detailed Response to Questions

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?

- IFIC believes that asset managers are solely responsible for setting investment goals and objectives and choosing the styles and approaches to meet those objectives.
- Consistent with the regulation of other types of investment products, it should not be the goal of regulation to "improve sustainability-related practices, policies, and procedures." While many investment funds have adopted sustainability-related and ESG strategies in Canada and around the world, this should not be mandated though regulation or guidance.
- With respect to risks associated with sustainability-related or ESG factors, Canadian securities regulation requires investment funds to disclose all aspects of risk in a prospectus, including ESG risk, relevant to the general risk of investing in investment funds and the risk associated with investing in the particular fund being offered. Additional regulation with respect to the disclosure of risk is not necessary.
- IFIC supports regulatory guidance aimed at improving the disclosure of ESG practices, policies and procedures, as well as specific ESG considerations. IFIC recommends that guidance supports existing regulatory frameworks as well as industry-led standards such as the CFA Voluntary ESG Disclosure Standards for Investment Products**.**

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

- As articulated in response to Question 1, we do not support guidance or regulation that seeks to direct investment managers or investment product objectives towards sustainability-related practices, policies or procedures. Fund managers should have discretion, within the existing regulatory framework, to establish investment objectives, strategies, policies, and procedures and there should be no prescribed mandate that these include references to sustainability or ESG more broadly.
- With respect to disclosure of sustainability-related and ESG practices, policies, and procedures, guidance should support and supplement existing disclosure regimes with considerations for ESG and sustainability factors. In addition, guidance should not significantly depart from existing domestic and global industry-led initiatives. A prominent example of a relevant global disclosure regime for investment products is the CFA Voluntary ESG Disclosure Standards for Investment Products.
- In Canada, there are two main initiatives that will have implications for any regulatory guidance. The first initiative is being led by the Canadian Investment Funds Standards Committee (CIFSC), which has adopted the goal of developing an independent framework for the identification and categorization of Canadian responsible investment funds. CIFSC has a stated a goal of aligning its framework with the CFA Voluntary ESG Disclosure Standards for Investment Products. It is expected that CIFSC will issue a draft framework in late 2021 or early 2022.
- The other initiative is the recently announced federal Sustainable Finance Action Council (SFAC), which has the broad mandate to develop a sustainable finance market as well as one specific mandate of "developing standards for investments to be identified as sustainable." The SFAC was launched in May 2021.
- The TCFD framework is not the most appropriate mandatory disclosure standard for investment fund managers or asset managers at the retail-product-level. The mandatory detailed reporting requirements under the TCFD framework, and the significant burden to apply it to retail financial products, will not be matched by benefits for the end-user.

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?

- Canadian securities regulation requires investment funds to disclose all aspects of risk in a prospectus, including ESG risk relevant to the general risk of investing in investment funds and the risk associated with investing in the particular fund being offered.
- Any additional guidance should be directed to those managers and investment products with a stated sustainability or ESG-related investment objective and strategy.

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?

- Securities regulators should not consider establishing additional disclosure requirements for these types of investment products; however, regulators may need to provide guidance for sustainability or ESG-related product disclosure. All guidance should be consistent with existing disclosure rules, be principles-based, and should not significantly depart from global and domestic industry-led standards, such as the CFA Voluntary ESG Disclosure Standards for Investment Products, and the framework for the identification and classification or ESG funds by the CIFSC.
- In addition, it is reasonable that principles-based guidance would include clearly stated investment objectives for sustainability-related or ESG investment products.

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

- This seems reasonable.

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

- Existing Canadian securities regulations clearly specify that marketing material must not be misleading and, as such, there is no need for additional Canadian requirements in this regard.

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

- To the extent that regulators provide guidance for sustainability or ESG-related disclosure, it should be principles-based and should be supportive of existing regulatory frameworks and global and domestic industry-led standards.
- It is reasonable that principles-based guidance would include reference to clearly stated sustainability or ESG investment strategies.
- However, sustainability and ESG investment strategies are competitive information, so disclosures should not compel companies to disclose their investment strategies in such detail that they would be revealing proprietary data.

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?

- To the extent that regulators provide guidance for sustainability or ESG-related disclosure, it should be principles-based, and supportive of existing regulatory frameworks and global and domestic industry standards.
- It is reasonable that principle-based guidance would include guidance for the disclosure of proxy voting policies and procedures or relevant portions thereof.
- Existing Canadian securities regulation includes the requirement for investment funds to disclose past proxy voting records.

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?

- Existing Canadian securities regulation is sufficient to address the format and presentation of marketing materials and website disclosure.
- Any additional guidance with respect to disclosure should be principles-based and should be supportive of existing regulatory frameworks and global and domestic industry-led standards.

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?

- Existing Canadian securities regulation is sufficient to address potentially misleading claims by investment products and no additional requirements are necessary to ensure compliance with stated investment objectives or strategies.

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?

- This should be left to the discretion of the investment manager, subject to regulatory requirements.
- Existing Canadian securities regulation is sufficient to address potentially misleading claims regarding investment products and no additional requirements are necessary to ensure compliance with stated investment objectives or strategies

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?

- IFIC believes that fund managers, dealers, advisors and investors would be well served by nationally and globally consistent terminology for sustainable and ESG-related investment strategies and products. Consistent terminology would help to classify and compare sustainable and ESG-related investment strategies and products and would ultimately help to align investor interests with fund objectives. Currently, there is inconsistency and confusion about sustainable and ESG-related terminology and investment approaches and there is no broadly supported industry standard or regulatory initiative that would bring about a standard.
- As described above, there are already several industry-led global and domestic initiatives underway to develop and harmonize terminology for sustainable and ESG-related investment strategies and products.
- We believe that the industry is well placed to continue and complete this work with final frameworks and standards to be evaluated by regulators and other stakeholder by the degree to which they allow investors to easily identify and compare investment products with sustainability-related or ESG strategies and to effectively match their investment objectives with investment products. These initiatives include:
    - CFA Voluntary ESG Disclosure Standards for Investment Products (the CFA indicated that future work will focus on classification of ESG investment products).
    - Global: PRI reporting framework definitions, GSIA definitions, IIF working group report on sustainable investment terminology, ISO / TC 322 Sustainable Finance
    - Canada: IFIC Report on Responsible Investment, CIFSC RI Classification (in development)
    - Germany: BVI Typology for sustainable financial instruments–ESG target market
    - Switzerland: SFAMA/SSF Sustainable Asset Management: Key Messages and Recommendations

- UK: IA Responsible Investment Framework, BSI PAS 7342: Product Fund (in planning)
- US: ICI "Funds' Use of ESG Integration and Sustainable Investing Strategies: An Introduction", Morningstar Sustainable Attributes methodology

(List adapted from Exposure Draft CFA Institute ESG Disclosure Standards for Investment Products, May 2021)

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?

- See answer to Question 12, above.

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?

- While it should not be the role of securities regulators to promote a particular approach to investing, financial literacy around ESG topics could be pursued in collaboration with the industry.

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?

- Nothing additional.