Submitted via email

August 13, 2021

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 ("Consultation Paper")

Dear Ms. Tircoci-Craciun,

We welcome the opportunity to comment on the Consultation Paper. While the Consultation Paper covers a range of issues, we provide general comment only, relating to matters where we believe MSCI's expertise and experience in environmental, social and governance ("ESG") ratings and data are most relevant. MSCI supports collaboration and consultation between bodies such as IOSCO and industry participants including investors, issuers and data providers in developing disclosure standards.

As a leading provider of ESG and climate risk data and analytics to the global investment community, MSCI has collected climate-related and environmental, social and governance (ESG) disclosures from thousands of companies globally for over two decades and developed tools to assist investors.[1] Our clients are leading institutional investors, asset managers and banks, which provides us with a unique perspective of sustainable finance trends and needs.

Principle observations relating to investor disclosure

We appreciate the work by IOSCO to reconcile efforts with the aim to enhance transparency, comparability and consistency in sustainability-related disclosure. In general, it is important that this effort remains descriptive, leaving room for investors to pursue different investment objectives and allowing for a diversity of approaches to sustainability. Therefore, we recommend being selective in determining what information is decision-useful and not requiring information that may in fact be less useful from a sustainability-risk perspective. As an example, requiring disclosure of general investment strategies and processes, independent of a sustainability angle, at the entity-level may for instance raise the reporting burden without adding value for the user.

[1] Innovest Strategic Value Advisors, founded in 1995, served as the research provider of the Carbon Disclosure Project (CDP) in its initial years. KLD Research & Analytics, founded in 1988, was the among first ESG research providers. Both companies were subsequently acquired by MSCI.

Within the descriptive framework, we believe the most relevant information for investors around sustainability-related risks is a base set of quantitative metrics as these allow comparability. A qualitative overlay may be included but boilerplate statements should be discouraged in favor of meaningful disclosure that explains how the sustainability-related risks and opportunities are being managed and their impact in the foreseeable future. To achieve this, enhancing the quality of data reported by issuers (e.g. reporting in the same unit, with the same baseline) and closing related data gaps (e.g. for scope 3 emissions) is key for ensuring the integrity of sustainability metrics reported by investors.

It is further important that disclosure standards should be subject to regular updates as the ESG data landscape is evolving. Climate-related and ESG data and analytics are also improving rapidly, enabling companies and investors to develop improved methodologies and metrics to better capture and analyze material developments. Disclosure standards that remain static could lose relevance by failing to capture major ESG and climate related risks and opportunities related to sustainability practice by asset managers.

International Standards

We support IOSCO's proposals for achieving a global baseline on sustainability disclosure that is investor-focused and material to enterprise value through 'building blocks'. MSCI does not have a view on a preferred international standard but we note the March 8, 2021 announcement by the IFRS Foundation to create a new Sustainability Standards Board ("SSB") to accelerate convergence on reporting standards and the supportive statements from IOSCO and the Financial Stability Board. Like IOSCO, we support the efforts of the IFRS Foundation to propose standardization of the ESG disclosures that aim to capture issues that could be material to companies' enterprise value, starting initially with climate-related disclosures that align with the guidance of the TCFD. The framework set forth by the TCFD has already significantly advanced the convergence of climate-related reporting to be more robust and consistent. Hence, we support IOSCO's proposal to align with this framework for the key areas identified for disclosure.

Research

As part of the work that we do, we aim to contribute to raising awareness on relevant sustainability trends and ESG integration to enable more informed selection decisions for investors. This includes research on ESG funds transparency through which we want to empower investors to make informed decisions by having an applied understanding of how the fund universe performs across a wide range of ESG metrics. This helps investors with benchmarking and target setting. Below we highlight our observations, shared in a report[2]:

- ESG funds account for just 4.3% of the mutual fund universe[3] (USD 2 trillion) but are growing and their use as an ESG integration tool is also becoming more established.
- Across our rated mutual fund universe, most (84%) exhibited an average ESG rating (A, BBB, BB). ESG leader funds (AAA- and AA-) represented 15.2% of funds globally, with a majority domiciled in Europe.

[2] Fund ESG Transparency Q2 Spotlight: Mutual funds (msci.com)

[3] Our coverage includes 40.000 mutual funds.

- Funds invested more in companies that performed better on Environmental (E) key indicators rather than Social (S) and Governance (G) factors; 79.4% of funds scored between 5-7 on Environmental factors, 88.5% scored between 4-6 on Social factors, and 52.8% of funds scored 3–5 on Governance factors. This reflects the general prominence of E over S and G in the ESG fund strategy landscape and may indicate that challenges exist in structuring fund products to optimize S and G attributes.
- Emerging market-focused funds on average exhibited a carbon intensity roughly three times that of developed market funds.
- The top 20 largest ESG mutual funds held over USD 180 billion in assets as of April 30. 2021. Over 77% of the invested assets were held in active funds. But the largest funds were managed in a variety of ways: active and index-based, integration, values- and screens-based, and thematics.

Annex 1 includes additional research that may be considered in the context of this Consultation Paper.

Please do not hesitate to contact us to discuss our response or research further.

Yours sincerely,

/s/ Linda-Eling Lee
Global Head of ESG Research
MSCI ESG Research LLC

Annex 1

- Deconstructing ESG Rating Performance: Risk and Return for E, S and G by Time horizon, Sector and Weighting (accessible here)
- Fund ESG Transparency – Q2 Spotlight: Mutual Funds (accessible here)
- The 20 Largest ESG Funds (accessible here)
- Some ESG Funds Are Not Like the Others (accessible here)