

Task Force on Climate-related Financial Disclosures
c/o Financial Stability Board
CH-4002
Basel, Switzerland

Re: Forward-Looking Financial Sector Metrics Consultation

Dear Task Force Members:

The Investment Company Institute¹ is writing to submit our response to the Task Force on Climate-related Financial Disclosures Forward-Looking Financial Sector Metrics Consultation.² We respectfully request that you consider this letter, which responds to the survey questions on which we can offer a perspective.

As the trade association representing regulated funds globally, ICI has a significant interest in how sustainability reporting frameworks and standards, including climate-related financial disclosures, evolve. And we support TCFD's work. In fact, ICI's Board of Governors recently urged companies to provide disclosure consistent with TCFD's 2017 recommendations,³ and ICI has encouraged the incoming Biden Administration to support TCFD.⁴

¹ The [Investment Company Institute](https://www.ici.org) (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's members manage total assets of US\$27.7 trillion in the United States, serving more than 100 million US shareholders, and US\$8.3 trillion in assets in other jurisdictions. ICI carries out its international work through [ICI Global](https://www.ici.org/global), with offices in London, Hong Kong, and Washington, DC.

² TCFD, Forward-Looking Financial Metrics Consultation (October 2020) (Consultation), available at https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Consultation-Forward-Looking-Financial-Sector-Metrics.pdf.

³ See ICI News Release, ICI Board Unanimously Calls for Enhanced ESG Disclosure by Corporate Issuers (December 7, 2020) (announcing that ICI's board is urging companies to provide disclosure consistent with the recommendations of the TCFD and Sustainability Accounting Standards Board (SASB)), available at https://www.ici.org/pressroom/news/20_news_esg.

⁴ See Eric J. Pan, "The Fund-Management Industry Now Wants the US to Take the Lead on ESG Investing—Here's What It Says Biden Should Do," published in MarketWatch (December 7, 2020) (stating that the Biden administration should prioritize announcing support for TCFD and SASB), available at https://www.ici.org/pressroom/opinions/opinions/20_ejp_esg.

The development of company reporting standards, and their broad adoption, are critical for fund managers to have access to accurate, comparable, and comprehensive information on how companies are addressing climate and other sustainability risks. Fund managers use this information to pursue a range of investment strategies on behalf of the millions of retail investors around the world choosing funds to save for retirement, education, and other important financial goals.

In addition, ICI is keenly interested in being an active participant in any discussions contemplating the development of reporting recommendations that might apply to regulated funds and their managers. We note that, last year, to promote the understanding of investors, other market participants, regulators, and others, an ICI member working group developed and published consistent terminology to describe ESG strategies in their public communications. ICI's Board of Governors strongly endorsed the recommendations of the working group and urged all ICI members to take actions as may be appropriate to implement the terminology recommended as soon as reasonably practicable.⁵

The Consultation seeks information regarding the use and disclosure of climate-related metrics by financial institutions (banks, insurance companies, asset managers, and asset owners) and asks specifically about implied temperature rise (ITR) metrics. TCFD states that it will “take consultation responses into consideration to determine whether further TCFD financial sector guidance on forward-looking metrics is needed.”⁶

TCFD's initial 2017 supplemental guidance for the financial sector encouraged asset managers to disclose to clients the metrics they use to assess climate-related risks and opportunities as well as other metrics they believe are useful for decision-making.⁷ In addition, TCFD recommended that asset managers disclose a specific carbon footprint metric—weighted average carbon intensity (WACI)—for each product or investment strategy, where data are available or can be reasonably estimated. Although the quality and availability of data has improved over the last few years, obtaining meaningful climate data on portfolio investments continues to present a significant challenge for asset managers.⁸

⁵ See ICI, *Funds' Use of ESG Integration and Sustainable Investing Strategies: An Introduction* (July 2020), available at https://www.ici.org/pdf/20_ppr_esg_integration.pdf.

⁶ Consultation, *supra* n. 2, at 2.

⁷ The TCFD's 2017 recommendations include sector-specific supplemental guidance for the financial sector, including banks, insurance companies, asset owners, and asset managers. See *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures* (June 2017), at p. 22-45, available at <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf>.

⁸ See Task Force on Climate-related Financial Disclosures 2020 Status Report (Oct. 2020), at p. 23, available at <https://www.fsb.org/wp-content/uploads/P291020-1.pdf> (noting that “[r]esponse rates on this metric are reflected in the percentages for *Metrics and Targets b*) and are the second lowest for both asset managers and asset owners across the three years. Furthermore, as described in Box A2, the WACI metric has the lowest percentage of responses across a range of carbon footprinting and exposure metrics.”).

We therefore strongly believe that the path toward improved climate-related disclosures must follow a sequence that begins with companies overcoming the challenges associated with their reporting of climate-related metrics. Any consideration of reporting by asset owners and managers would be based, and therefore depend on, more companies reporting higher quality and more reliable climate-related data. Consequently, it is premature to answer the Consultation's queries about the usefulness of asset owners and managers providing specific forward-looking metrics.

The Consultation highlights many of the challenges that asset managers face when evaluating climate-related metrics reported by investee companies. First, the limited availability and poor quality of emissions data makes it very difficult to calculate carbon-related metrics. Survey question 20 asks how the lack of reliable or comparable greenhouse gas (GHG) emissions data impacts the usefulness of forward-looking metrics as part of financial decisions. We believe it presents a significant barrier.

Second, there is insufficient transparency into the methodologies that are used. This lack of transparency makes it difficult to replicate the metrics or compare them across companies using different methodologies. Survey question 24 asks how important it is to understand which scenarios and pathways were used in the calculation of forward-looking metrics to make them decision-useful. We believe that this information is very important. Indeed, in addition to being transparent, methodologies that are science-based and supported by consensus would promote reliability and comparability of metrics.

Third, any forward-looking metrics would be based on assumptions and estimates, introducing subjective elements to the data. Survey question 36 asks about challenges faced when using forward-looking metrics. We believe that all of the items listed present challenges, including concerns around reliance on assumptions and future uncertainty and concerns around reliance on assumptions required to derive future company-level emissions.

For these reasons, it is vital that the challenges associated with investee companies' climate-related metrics be addressed before expanding asset managers' reporting of metrics that rely on that underlying investee company data. Requiring asset managers or owners to report forward-looking estimations when there is insufficient data and clarity on methodologies would not necessarily result in useful information for investors and could raise liability concerns for asset managers and owners.

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27 January 2021

Page 4 of 4

If you have any questions regarding our comments or would like additional information, please contact me at (202) 326-5813 or susan.olson@ici.org.

Sincerely,

/s/ Susan Olson

Susan Olson

General Counsel

Investment Company Institute

cc: The Honorable Allison Herren Lee
The Honorable Hester M. Peirce
The Honorable Elad L. Roisman
The Honorable Caroline A. Crenshaw
US Securities and Exchange Commission