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June 11, 2021

SASB Standards Board
1045 Sansome Street, Suite 450
San Francisco, CA 94111

Re: Systemic Risk in Asset Management—Proposed Changes to the SASB Asset Management & Custody Activities Standard

Members of the SASB Standards Board:

The Investment Company Institute (ICI)[1] appreciates the opportunity to comment on the proposal to remove the Systemic Risk Management disclosure topic and associated accounting metrics from the Sustainability Accounting Standards Board (SASB)'s Asset Management & Custody Activities Standard.[2] For the reasons outlined in this letter, ICI strongly supports the Proposal and urges its adoption.

In December 2020, ICI's Board of Governors issued a statement encouraging US public companies to provide disclosures consistent with SASB standards.[3] In announcing its action, the ICI Board explained that it is important for fund managers to have access to ESG-related information for making informed investment and proxy voting decisions on behalf of fund shareholders. The ICI Board also underscored that disclosure provided in accordance with widely accepted frameworks like the SASB standards should help improve both the quality and quantity of ESG-related information that is available to investors and policymakers.

ICI applauds the willingness of the SASB Standards Board to reconsider disclosure topics and metrics that may not align with current regulatory requirements, are the subject of ongoing development and verification, or otherwise may raise reporting challenges for public companies. As the consultation document makes clear, the current Systemic Risk Management disclosure topic and associated accounting metrics for asset management raise similar concerns.[4] We

[1] The Investment Company Institute (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$30.8 trillion in the United States, serving more than 100 million US shareholders, and US$9.7 trillion in assets in other jurisdictions. ICI carries out its international work through ICI Global, with offices in Washington, DC, London, Brussels, and Hong Kong.

[2] SASB, Systemic Risk in Asset Management; Proposed Changes to the SASB Asset Management & Custody Activities Standard (Proposal) (March 16, 2021).

[3] ICI Board Unanimously Calls for Enhanced ESG Disclosure by Corporate Issuers (Dec. 7, 2020).

[4] Proposal, *supra* note 2, at 11-12 (describing concerns with the disclosure topic and metrics).

likewise compliment the SASB Standards Board for opening a review based on feedback from corporate issuers and broadening the process to gather inputs from all stakeholders, including investors who are end users of the disclosures.

ICI strongly supports the Proposal, which would remove the Systemic Risk Management disclosure topic for asset managers and the associated accounting metrics. The topic and metrics do not appropriately recognize the nature of the asset management business and improperly conflate risks at the manager level—the level with which the SASB standards are concerned—with risks at the fund or client level.

The consultation document notes that SASB originally developed the topic and metrics to reflect regulatory discussions following the global financial crisis about the potential for systemic effects from a single asset manager. ICI and other industry experts engaged extensively with policymakers in the United States and globally over many years to explain why those concerns were unfounded.[5] In the case of a manager of regulated funds, for example, ICI explained that the manager provides investment management and other services to funds in an agency capacity, acting pursuant to written contract and in accord with each fund's investment objectives and policies as described in the fund's prospectus. The economic exposures, the relative liquidity of the assets held in the fund, the impact of any use of leverage, and the interconnections with counterparties are those of each individual fund—*not* of the fund manager.[6] All investment gains and losses experienced by a fund are solely attributable to that fund and its shareholders and in no way "roll up" to the manager.

As the consultation document acknowledges, the regulatory dialogue around potential systemic risks in asset management has shifted—in ICI's view, quite correctly—away from individual managers and toward risks at the "activity" (or fund/client) level. Both the US Financial Stability Oversight Council (FSOC) and the global Financial Stability Board (FSB) have recognized that any potential systemic risk in asset management should be evaluated and addressed in the first instance by looking at particular activities on an industry-wide basis.[7]

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[5] *See, e.g.*, Letter from Paul Schott Stevens, President & CEO, ICI, to the Financial Stability Oversight Council, dated Feb. 25, 2011; Statement of F. William McNabb III, Chairman and Chief Executive Officer, The Vanguard Group, Inc., on behalf of the Investment Company Institute, before the Committee on Financial Services, US House of Representatives, on Examining the Dangers of the FSOC's Designation Process and Its Impact on the US Financial System (May 20, 2014); Letter from Paul Schott Stevens, President & CEO, ICI, to the Financial Stability Board, dated May 29, 2015.

[6] This is why the current metrics focused on liquidity risk associated with assets under management (FN-AC-550a.1, which calls for reporting the percentage of open-end fund assets under management by category of liquidity classification, and FN-AC-550a.2, which calls for a description of how the asset manager incorporates liquidity risk management programs into portfolio strategy and redemption risk management) would not provide information about the asset manager.

[7] In July 2014, FSOC announced that it had directed staff to consider potential financial stability risks in asset management by undertaking a more focused analysis of industry-wide products and activities. *See* Financial Stability Oversight Council Meeting July 31, 2014. Five years later, FSOC revised its interpretive guidance to prioritize an activities-based approach for evaluating and addressing potential systemic risks for nonbank financial institutions including asset managers. *See* FSOC, Authority to Require Supervision and Regulation of Certain

SASB has indicated that it is "**not** looking to get involved in a broader discussion of systemic risk management or debate the impact of asset/wealth managers and custodian banks on the financial system . . . and will not provide a view contrary or additive to that currently established by global regulators."[8] Given the shift in regulatory focus to asset management activities, ICI concurs that removal of the Systemic Risk Management disclosure topic and associated accounting metrics is the appropriate response.

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We appreciate the opportunity to outline our support for the Proposal. If you have any questions, please feel free to contact me at (202) 326-5824 or eric.pan@ici.org.

Sincerely,

/s/ Eric J. Pan

Eric J. Pan
President & CEO

Nonbank Financial Companies, 84 Fed. Reg. 71740 (Dec. 30, 2019). For its part, the FSB set aside its 2015 work on developing an assessment methodology for individual asset managers and shifted to a review of potential systemic risks in asset management activities. *See, e.g.*, FSB, Proposed Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities (22 June 2016) at 1-2.

[8] Anton Gorodniuk, Lead Analyst – Financials, SASB, Call for Feedback: Systemic Risk (Feb. 7, 2020) (emphasis in original).