



Keynote Address, Sustainable Finance Workshop

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Eric J. Pan
President and CEO
Investment Company Institute

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Afore Consulting

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Introduction

Thank you, Nick, for the kind introduction. I'm glad to be part of the Afore Sustainable Finance Workshop and addressing you all virtually. Today, I am speaking to you from Washington, DC, but I hope to see everyone in person before too long. On behalf of the Investment Company Institute and ICI Global, we are excited to work alongside each of you.

I want to talk to you today about two topics: first, what the Securities and Exchange Commission (SEC) in the United States has proposed on climate-related disclosures by public companies; and second, what we—the investor community—mean when we ask for global inter-operability of climate disclosure rules.

As I look at the agenda of this workshop, I detect a clear theme in the topics, which is that the EU continues to make commendable forward progress toward its sustainable finance goals. But I also want to highlight an equally important, and perhaps less obvious theme for today:

For the EU to succeed in its goals, it also needs to continue improving the level of global collaboration on sustainability-related reporting.

Before I tackle this theme of the EU becoming a leader in the charge to achieve global inter-operability, let me explain what is happening in the United States on addressing the need investors have for consistent climate-related data from companies.

US SEC Climate Proposal

In March of this year, the SEC took an important step forward by proposing rule changes to require US public companies to provide more comprehensive and standardized climate-related information to their investors. I know from my former experience at the SEC that such rule proposals are complex and multifaceted and need to adhere to the SEC's mandates to promote capital formation, protect investors, and maintain orderly markets.

To summarize the SEC's proposal: the new rule would require companies to include a significant amount of climate-related information in their registration statements and annual shareholder reports. The disclosure framework is modeled in part on the Task Force on Climate-Related Financial Disclosure (TCFD) recommendations.

Specifically, it would require companies to:

- conduct oversight and governance of climate-related risks;
- show how identified climate-related risks have, or may have, an impact on business or financial statements;
- assess how climate-related risks may affect strategies, business models, and outlooks;
- outline the process for identifying, assessing, and managing climate-related risks and whether any such process is integrated into overall risk management systems;
- identify the impact of climate-related events and transition activities on the line items of a company's financial statements;
- disclose Scope 1 (direct) and Scope 2 (indirect) greenhouse gas (GHG) emissions metrics;
- for larger companies, disclose Scope 3 GHG emissions in their value chain, such as suppliers and distributors, if material *or* if the company has GHG emissions targets that include Scope 3 emissions; and
- disclose about any publicly set climate-related targets or goals and transition plans.

Whew!

As you can see, it was not a short, pithy proposal. It required much work to analyze and respond to!

The proposal really dug deep. In addition to what I have outlined already, it would even require companies to include climate-related financial statement metrics and related disclosures in a note to their audited financial statements. The financial statement metrics would be subject to audit by an independent, registered public accounting firm. So the compliance implications would be very, very serious for US public companies.

For you all, the most notable aspect of the SEC's proposal might be that the SEC asked whether non-US companies, registered with the SEC, should be permitted to fulfill their US reporting requirements by using criteria developed by a global sustainability standards body—such as the International Sustainability Standards Board (ISSB).

Comments were due on June 17, and the SEC has received over 3,400 comment letters, including a detailed comment letter from the Investment Company Institute expressing support in many areas, and quite serious concerns in others. The SEC expects to adopt a final rule by later this year—possibly as early as October.

ICI's Response to SEC

ICI members represent a very large share of investors in the United States and across the globe—our members manage almost \$39 trillion in assets worldwide—and naturally our comment letter in response to the SEC will be a key input. So what did we say?

ICI urges the SEC to adopt a final rule that requires a company to file certain climate-risk related information that the company determines is *material* in annual reports and registration statements. And like the approach taken in other jurisdictions, we believe that, to the extent that the company determines this information is *not material*, it would still be appropriate to furnish such information and any additional SEC-mandated information in a new climate report, a furnished climate report.

Under the recommended approach, a company would furnish the climate report 120 days after its fiscal year-end. If a company subsequently determines that information included in the furnished climate report (that had not been included in the SEC filings) is actually material, it would incorporate it by reference when making its next SEC filing.

Our letter supports key components of the SEC proposal, including that a company be required to disclose Scopes 1 and 2 emissions, and narrative disclosure consistent with certain aspects of the TCFD framework. We reason that when it comes to “how” to measure and report Scopes 1 and 2 emissions, our systems are now sufficiently developed to provide investors, including fund managers, with reliable, consistent, and comparable information that can help them make investment decisions in a cost-efficient manner. We also support requiring companies to obtain *limited* assurance for their Scopes 1 and 2 emissions disclosures, to enhance their reliability.

In addition, the letter supports the SEC requiring all large companies that have publicly announced a target or goal to reduce their Scope 3 emissions, to describe the amount and intensity of those Scope 3 emissions. If they have said they are going to do something, they should show investors what they have done—or left undone.

Our letter really underscores to the SEC the importance of adhering to the materiality standard that underlies the federal securities laws in designing any final rules. That long-held standard should not be changed.

With respect to the notable question about the ISSB, our letter encourages the SEC to actively engage the ISSB to ensure the SEC framework is comparable to any final ISSB standards. We urge the SEC to prioritize work with the ISSB, and other jurisdictions, towards developing set of common global baseline standards. This will help mitigate cross-border fragmentation and provide investors with useful and generally consistent disclosure.

We encourage the SEC to do its part, in concert with market participants and regulators around the globe, to permit non-US issuers, who are registered with the SEC, to fulfill their climate-related disclosure obligations by complying with the ISSB standards.

Inter-operability

Now that I have described the SEC rule proposal, and ICI’s recommendations, let me turn to the issue of inter-operability. Environmental, social, and governance (ESG) issues are global issues in global markets. Climate change is a global problem. It will require global solutions.

We all acknowledge the important role that investors will play in financing the transition to net zero. The question is, are we doing enough to make sure they have the tools they need to enable those investors who want to support sustainable finance?

When we say international collaboration, we don’t mean the Olympics. There won’t be a gold medal for the EU or any other winner of the race to net zero, especially if they’re sprinting on a different track than all the other runners. We have to think of sustainability reporting as a team sport!

One global solution can be found in the development of a common international language for sustainability reporting standards. This is a vital building block for anyone seriously attempting to tackle these issues. The goal is transparency. That's a goal worth pursuing on behalf of investors from France, to Germany, to the US, and beyond. Those hardworking investors are looking for comparable material information they can use to make well-informed investment decisions.

There's a new buzzword going around when we talk about reporting standards. That's the word "inter-operability," and it's being used a lot these days.

I want to attempt to define three terms today, so we can all begin to mean the same things when we talk about cross-border or global standards. The first is *harmonization*; the second is **convergence**; and the third is *inter-operability*. So here we go:

Harmonization is where regulators across jurisdictions agree to adopt rules that are pretty much the same. They would work together to develop the rule set and then all adopt them. This model exists in the EU—through directives that are developed at the EU level and then transposed into national law.

Convergence is where regulators all choose to adopt, or converge around, a set of standards developed by a third-party standard setter, like in the case of the International Financial Reporting Standards (IFRS) accounting standards used by nearly every country around the world (except here in the US). For sustainability, the ISSB is developing those standards and many countries are working to adopt them. The EU and US, however, are not directly adopting ISSB standards. Which is why we are pushing for that last term, inter-operability.

Inter-operability is where regulators develop different sets of rules, but, overall, the standards align enough to work with each other. Think like puzzle pieces, which can be shaped differently but fit together seamlessly, and present a whole picture that makes sense.

Even though the US and EU are not directly adopting ISSB, we strongly urge both jurisdictions to recognize ISSB as a global baseline, and to allow foreign companies to rely on ISSB for their disclosures. If the US and EU do this, they will be making a crucial step to achieve inter-operability, which we believe is necessary to maximize cross-border financing of sustainable investments.

Most of ICI's membership is made up of fund companies operating in multiple jurisdictions. It doesn't make sense to these *global* investors to grapple with different standards of reporting the same risks faced by the same companies, just because these companies operate or raise capital in more than one market.

The formation of the ISSB and the consolidation of various international sustainability frameworks is a response to demand for a global baseline. That demand is coming from both investors and companies looking for streamlined corporate sustainability disclosures.

A common international language on disclosures, as is being developed by the ISSB, should give investors greater comparability and greater confidence in investing worldwide.

And here's the trick. It doesn't need to be everyone's *first* language.

When we say inter-operability, it means we all need to speak enough of this common language to understand what the other is talking about. As investors, we need the EU and the US to strive for this by working with standard setters like the ISSB to produce a reliable, trusted global baseline of reporting standards.

Closing

Today, I am encouraging EU policymakers here at this workshop to do the same. Work *with* the SEC and other regulators. Work *with* market participants. Work *with* standard setters like the ISSB. Work collaboratively, *not* competitively, and with a shared goal. The goal is to develop a set of high-quality, globally accepted reporting standards to provide the much-needed foundation for investors to receive consistent and reliable sustainability information.

Sometimes we hear from European policymakers that the ISSB standards don't go far enough. They say the ISSB focuses on enterprise value and therefore does not capture the impacts that companies are having on the environment and society.

This is not a problem—there is nothing precluding individual jurisdictions from adding on to what the ISSB has built—this is the benefits of a building blocks approach.

And, I think we can also all agree that having higher or different corporate sustainability reporting standards in a few countries isn't going to solve climate change. You can be the fastest runner in the world, but it won't matter if you're running on a different track altogether. Remember, there won't be one lone gold medal handed out in promoting sustainable finance. It is, must be, and will remain a global effort.

We therefore ask all regulators and policymakers—in Europe and in the United States—to start playing like this is a team sport. If there's one thing I can encourage us all to do today—it's that.

So thank you for your time, and for letting me share my perspective. I congratulate Afore on the impressive lineup of speakers today, and I'm glad to have been able to be part of this important program. I look forward to continuing these conversations—in Brussels, in London, in New York, or in Washington, DC. You'll find that here at the Investment Company Institute our door is always open, and we have a deeply interested voice on these incredibly important issues.

With that, I'll hand back over to Nick Reinhardt and his colleagues. Thank you again!