



August 13, 2021

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Submitted online via email to consultation-01-2021@iosco.org

RE: Consultation report on Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management; CR01/21

To Whom it May Concern:

BlackRock, Inc. (together with its affiliates, “BlackRock”) respectfully submits the following response to the International Organization of Securities Commissions (“IOSCO”) consultation on sustainability-related regulatory and supervisory expectations in asset management following the release of the consultation report [Recommendations on Sustainability-Related Practices, Policies Procedures and Disclosure in Asset Management](#) on June 30, 2021. We commend IOSCO for taking this important step that will contribute to global coordination between securities regulators in their efforts to advance sustainability disclosure regimes and product terminology for investment products that will ultimately allow investors to make more informed decisions when incorporating sustainability-related risks and opportunities into their investment choices.

Our views on the topic of asset manager and product-level sustainability-related disclosure can be summarized as follows:

- We support IOSCO’s endorsement of asset managers disclosing how their investment processes map on to the four pillars of the Task Force on Climate-Related Financial Disclosures (“TCFD”) – governance, strategy, risk management, and metrics and targets.
- Mandatory corporate issuer disclosure is an important first step to achieving consistent and comparable product-level disclosure. Work on product-level disclosure should follow sequentially after existing efforts across jurisdictions to standardize sustainability disclosure for corporate issuers. Even then, product-level disclosure rules may need to be flexible enough to accommodate instances where primary source data is limited.
- We think IOSCO could play a valuable role in driving high-level consistency around standards on product-level disclosure of Environmental, Social, and Governance (“ESG”) characteristics, while of course acknowledging that

local and/or regional rules will be tailored to their specific market needs. Investors are not monolithic in their motivations for seeking products with ESG characteristics, and consistent and comparable sustainability-related disclosure at the product-level will facilitate greater transparency for investors regarding a product's sustainability objectives and holdings, allowing them to find products that best meet their specific needs. However, overly prescriptive regulatory definitions of ESG characteristics will hamper the asset management industry's ability to provide the wide array of products needed to satisfy diverse investors.

- Products that rely on sustainability metrics to meet their investment objectives or sustainability claims should provide appropriate disclosure on those metrics to enable investors to evaluate such claims. We suggest, however, that regulators acknowledge the evolving nature of sustainability metrics and refrain from using a one-size-fits-all approach in mandating the use of specific metrics. A phased approach is necessary here, with baseline transparency around a product's selected metrics being a sensible starting point.
- We support regulators' use of existing enforcement frameworks to ensure compliance with any manager-level or new product-level sustainability disclosure requirements.
- A sustainable product terminology framework is essential to give investors a consistent and comparable understanding of the various types of sustainable investing solutions available to them. As industry has begun to coalesce around principles-based terminology frameworks, we recommend IOSCO and regulators look to these industry-led examples as a useful starting point in developing more consistent product naming and disclosures to provide investors with necessary clarity. We note that some regulators have developed or may choose to develop more nuanced frameworks; any guidelines issued by IOSCO should remain principles-based to the extent possible to benchmark clear and consistent approaches while allowing space for national rules to reflect different jurisdictional considerations and regulatory approaches.
- Following the adoption of a suitable and comparable sustainable terminology, investor education and outreach could be an appropriate next step.

As a publicly-traded asset management firm, we write this letter from the perspective of a fiduciary to our investment clients committed to helping more and more people experience financial well-being. We invest on behalf of clients with a variety of long-term financial objectives, and core to serving these clients is providing transparency on our investment processes to illuminate how the products we offer can help investors reach their financial and sustainability goals.

Moreover, BlackRock has worked to improve its product-level information on sustainability risks and opportunities to help our clients and investors better

understand the investments within our products. We have made efforts to enhance the transparency of the sustainability characteristics of all of our products, where possible and available, following certain commitments made in January 2020.¹

Below we provide our feedback on the recommendations IOSCO set out along the following categories:

Asset manager practices, policies, procedures, and disclosure

In line with our own commitments, we are supportive of the recommendation for greater disclosure of asset managers' activities related to sustainability. We view these disclosures as essential for allowing clients to better understand how asset managers are considering sustainability risks and opportunities in their product offerings.

We support IOSCO's recommendation that asset managers' investment practices around sustainability follow the four pillars of the TCFD framework – governance, strategy, risk management, and metrics and targets – and support disclosure around these pillars. BlackRock believes that all asset managers should be subject to a consistent set of baseline disclosures around sustainability, drawing on the TCFD pillars. Beyond such baseline sustainability disclosures, we support additional disclosure around asset managers' particular activities that directly relate to sustainability, while recognizing that some of these disclosures should be subject to criteria based on an asset managers' size, business model, asset classes under management, etc. Where asset managers have published a global consolidated TCFD report, we believe that should qualify for exemption or be accepted as meeting the requirements for TCFD reporting by locally authorized entities. This is appropriate as TCFD reporting is designed to capture the overall corporate activity. Additional regionally specific TCFD reports with differing local requirements would not be additive, could create unnecessary inconsistencies, and may run counter to the TCFD objectives.

BlackRock has made substantial commitments to increasing its own sustainability-related disclosure and is committed to providing meaningful sustainability information to all of our stakeholders. We have released reporting aligned to the recommendations of the TCFD, which can be found in [BlackRock's 2020 TCFD Report](#). Further, our [2020 Sustainability Disclosure](#) includes reporting on sector-specific metrics for asset managers that are aligned to the Sustainability Accounting Standards Board (SASB) Standards for Asset Management & Custody Activities, the UN Global Compact Ten Principles, and reporting on additional sustainability topics that matter most to our stakeholders.²

¹ These commitments were made in BlackRock's 2020 Letter to Clients: [Sustainability as BlackRock's New Standard for Investing](#).

² Sector specific metrics, such as those identified by the SASB Standards provides a roadmap for reporting to investors focused on achieving disclosure that is useful, cost-effective, industry-specific, evidence-based, and informed by market practitioners. We see the TCFD recommendations and the SASB standards as complementary. TCFD has four pillars – governance, strategy, risk management, and metrics and targets. The SASB standards can provide the content, principally for the metrics pillar, in certain sectors. One of the key advantages of

With respect to investment stewardship, BlackRock believes that stewardship activities to encourage sound corporate governance and sustainable business models, and information on proxy voting and corporate issuer engagements, should generally be disclosed at the asset manager level, as opposed to the product-level (the exception being where a product explicitly refers to stewardship as being part of its sustainability characteristics). We believe that in addition to reporting stewardship activities, asset managers should disclose their stewardship processes, function governance, and resources to enable clients and beneficiaries to assess the commitment of the organization to fulfill its stewardship responsibilities. BlackRock reports on its voting and engagement activities on behalf of our clients, with specific focus on sustainability considerations that link to a company's ability to deliver long-term financial returns. Our stewardship philosophy and our views on sound corporate governance and sustainable business models are reflected in our [Global Principles](#), market-level [voting guidelines](#), and [engagement priorities](#) – board quality and effectiveness; climate and natural capital; strategy, purpose, and financial resilience; incentives aligned with value creation; and company impacts on people. We also map our priorities [to the United Nations Sustainable Development Goals](#).³

Product disclosure

SEQUENCING

We believe that work on product-level disclosure should follow sequentially after existing efforts across jurisdictions to standardize sustainability disclosure for corporate issuers. Effective corporate issuer disclosure is a critical input for building greater transparency at the product level. Where issuers do not self-report useful data, asset managers are forced to rely on interpolated estimates, for instance, on Scope 1 and 2 greenhouse gas (GHG) emissions, in order to calculate product-level metrics.

PRINCIPLES-BASED DISCLOSURE

We support IOSCO's recommendations for regulators to set out disclosure expectations for sustainability-related products offered to the public. We would emphasize, however, that such regulatory expectations should be principles-based, as we think IOSCO could be most useful in driving high-level harmonization across jurisdictions, which would allow for more consistent and comparable sustainability-related product-level disclosure while acknowledging that more nuanced local and/or regional rules will be tailored to their specific market needs, jurisdictional considerations, and regulatory areas of focus.

TCFD and SASB from an investor's perspective is that each is grounded in the language of business planning and operations. For more information, see our Investment Stewardship Commentary: [Sustainability Reporting: Convergence to Accelerate Progress](#).

³ For more information about our investment stewardship activities, see our most recent Voting Spotlight: "[Pursuing long-term value for our clients](#)" and the [2020 BlackRock Investment Stewardship Calendar Year Annual Report](#).

Investors are not monolithic in their motivations for seeking products with ESG characteristics. Consistent and comparable sustainability-related disclosure at the product level will facilitate greater transparency for investors regarding the objectives, strategies, and holdings of sustainable products, allowing them to find products that best meet their specific needs. Overly prescriptive regulatory definitions of ESG characteristics will hamper the asset management industry's ability to provide the wide array of products needed to satisfy diverse investors. Conversely, principles-based guidance on product-level disclosure will empower investors in their asset allocation decision-making across a wide range of personal, financial, and sustainability-related motivations.

We recommend a phased and principles-based approach to integrating mandatory sustainability-related product disclosure in order to allow greater coalescence around methodologies as well as flexibility across jurisdictions and product providers. This approach is critical given that many of the metrics that might be disclosed are still evolving. Moreover, metrics for asset classes are evolving at different paces; for example, while there is emerging consensus on how to calculate weighted-average carbon intensity ("WACI") for equity products, there is far less agreement on how to do so for fixed income and multi-asset products; equally, there are challenges in applying metrics designed for companies to sovereign exposures. Therefore, we recommend that the disclosure and reporting of relevant and decision-useful sustainability metrics should, at this stage, focus on providing baseline transparency around the metrics used by the product provider to achieve financial and ESG objectives.

The spectrum of investors' motivations for sustainability-related investing is broad and cannot be met by a one-size-fits-all approach to classification or minimum standards. In order to enable asset managers to deliver products that meet investors' varied sustainability goals, we believe that a principles-based approach that ensures sustainability-related disclosures are proportionate to the investment objective and strategy of the product is more appropriate. Such a principles-based approach allows flexibility for asset managers to offer a broad range of sustainability products. As long as each product's name and associated disclosure is clear and well defined, it should allow investors to distinguish between products with sustainability-related investment objectives (whereby a product seeks specific and measurable sustainability outcomes) and those that promote sustainability-related characteristics (whereby sustainability-related risks and opportunities are integrated into the investment process without direct regard for sustainability-related outcomes). In contrast, prescriptive methodologies for minimum ESG standards risk being applied in a manner that may restrict product offerings in a way that does not suit investors' varied needs. For example, a focus on GHG reduction rates within screened strategies does not take into account the full ESG outcomes that result from exclusionary screens. Additionally, these criteria can be very dependent on asset class and region, compounding the difficulty of a one-size-fits-all approach here.

LABELING

The emergence of ESG, socially responsible investing (SRI), and other labels – over and above product terminology – has also led to different standards across markets and has in some cases led to unnecessary investment constraints that do not meet investors’ needs. In our view, effective product-level disclosure regulation, including methodologies around metrics, along with the adoption of industry-led efforts to develop consistent sustainable investing terminology frameworks (more on this below) is a better approach than labeling to provide investors with needed clarity. Regardless, we believe that if any jurisdictions choose to introduce labels, robust governance arrangements would be needed to ensure that the criteria used to define the labels cannot be changed arbitrarily in a manner that is inconsistent with investors’ needs or preferences. Any changes can significantly impact the labeled products’ ability to continue meeting the labels’ requirements while introducing significant costs for investors. In contrast, an approach focused on a clear terminology framework meets a wider range of investment needs and could support a better transition.

DISCLOSURE CONTENT AND TIMING

We agree that the descriptions of investment strategies should comprise information about the investment universe, investment selection process, and sustainability criteria used. However, we acknowledge that the extent of the portfolio’s focus on sustainability may be challenging to quantify. Further, while we agree that a product that has a specific implementation of voting and shareholder engagement should have disclosures as such, we also recognize that many products rely on a centralized team that conducts voting and engagement for all portfolios; hence, as noted above, such disclosures can be made at the asset manager level.

To ensure the accuracy and timeliness of information, we find it prudent for product disclosure guidance to include periodic updates related to product-specific sustainability risks and metrics. Each jurisdiction should determine the appropriate frequency of these required updates. We believe that sustainability disclosure standards can be governed by the same approach applied to other disclosures today: namely that product providers have an obligation to ensure their products’ disclosures remain accurate, are not misleading, and allow investors to make informed decisions about their products. With this approach, regulators and product providers should also consider corporate disclosure and its cadence of updates as an input into accurate product disclosure; it may be more difficult to update product disclosures more frequently than corporate disclosure updates are available. In the case of cross-border products, we recommend product providers defer to the disclosure conventions of the primary jurisdiction where the product is regulated, to the extent similar deferral is already made for other types of disclosure. We also maintain that much of this information is appropriately located on product websites rather than offering documents, and regulators should not promulgate new rules on updating offering documents.

These disclosures may include both quantitative and qualitative information. The level of detail required in sustainability disclosures should be proportionate to the extent to which a product incorporates sustainability-related factors into its overall

strategy and objectives. For example, a product that does not incorporate any kind of sustainability lens should only be required to disclose a baseline set of high-level qualitative disclosures about sustainability risks, whereas on the opposite extreme, an impact product should be required to disclose a greater level of granularity with respect to quantitative and qualitative sustainability disclosures, including assessments as to how these products are meeting stated sustainability objectives. The kinds of quantitative and qualitative information disclosed should also be tailored to specific asset classes, given the nature of the investment strategy (e.g. fundamental vs quantitative), unique challenges in measuring sustainability risks, and opportunities for various asset classes. However, ultimately, we recommend leaving the specifics of which metrics of performance indicators to include to local regulators.

Supervision and enforcement

As regulators contemplate supervision and enforcement policies related to product-level sustainability disclosure, we concur that national securities regulators should first look to existing regulatory frameworks and tools before developing entirely new tools for product-level supervision and enforcement.

We recommend regulators acknowledge the evolving nature of sustainability metrics as they integrate product-level sustainability disclosure into existing regulatory constructs. As much of the requisite data is evolving, we recommend regulators use the existing enforcement toolkits available to them to consider how “best effort” disclosures are adequately addressed in the context of the various liability frameworks they may or may not have. Meanwhile, in jurisdictions where local enforcement and supervision toolkits are still in development, we recommend the use of guidance, where appropriate, to encourage product-level disclosure within that domicile.

Terminology

A framework for sustainable product terminology is essential to give investors a consistent and comparable understanding of the types of investing solutions available to them. We recommend regulators build upon existing, high-level sustainable investing terminologies that links a fund’s name, description, and investment profile and objectives (or some additional description if the product’s objective is to track an index) in a clear, consistent, and comparable fashion. Moreover, consistency in product naming and marketing conventions will help mitigate the risk of greenwashing, whereby products are marketed in a misleading way that inflates their supposed sustainability output, leaving investors unable to make truly informed investment decisions.

In contrast to terminology frameworks, product classification exercises tend to result in differing standards set across markets and complications when products seek to achieve multiple objectives. For example, an environmentally focused product may tilt towards companies that are well-positioned for the low carbon transition, as well as avoid exposure to companies that produce some types of fossil fuels, while having a specific allocation to green bonds.

BlackRock recommends IOSCO look to existing industry coalescence around terminology frameworks as regulators consider terminology constructs.⁴ These can be a valuable starting point for regulators who are considering how to promote more consistent product naming across their markets. Notably, the industry has drawn an important distinction between ESG Integration – incorporating ESG factors into investment processes to the extent that they represent investment risks and opportunities tied to financial materiality – and Sustainable Strategies – using ESG factors to meet clients’ objectives around sustainable outcomes as a supplement to financial returns.

To improve understanding of product labels and categories we propose IOSCO recommend the following three high-level categories of sustainable strategies:

1. **ESG Exclusionary Investing**, also called “screened” whereby products may exclude companies and/or sectors that do not meet given sustainability criteria or align with products’ specific sustainability objectives.
2. **ESG Inclusionary Investing**, also called “ESG broad” or “ESG thematic” whereby products seek positive sustainability outcomes in addition to financial returns by aligning investment theses with ESG factors, either systematically or fundamentally.

Certain jurisdictions may find it beneficial to incorporate sub-categories (e.g., optimized, etc.) within this middle bucket to ensure a more accurate picture of the way different products align their investments with ESG factors and to what extent; doing so would also mitigate greenwashing. We support IOSCO acknowledging the need for flexibility for national regulators to incorporate sub-categories here as they deem necessary.

3. **Impact Investing**⁵, whereby products aim to create positive and quantifiable environmental and/or social impact in addition to financial returns; impact investing must be intentional, material, additional, and measurable.⁶

It should be noted, however, that products may fall into more than one of the above three categories based on the ways that sustainability-related factors, goals, and

⁴ For example, the terminology put forward by the Investment Company Institute (ICI) in their whitepaper “Funds’ Use of ESG Integration and Sustainable Investing Strategies: An Introduction”, released in July 2020, as well as that put forward by the Institute of International Finance (IIF) in their whitepaper “The Case for Simplifying Sustainable Investment Terminology”, released in November 2019, provide a picture of industry efforts to promote greater use of clear, comparable and consistent terminology criteria.

⁵ Increasing rigor and consistency in defining products as impact has been enhanced by the development of global third party standards and metrics including the IFC’s Operating Principles for Impact Management, the GIIN IRIS+ metrics and the Impact Management Project’s five dimensions of impact.

⁶ For the purposes of this definition, these words are defined as follows. Intentional: investing with the purpose of having impact; Material: core products and services must advance impact goals, such as the Sustainable Development Goals (SDGs); Additional: strategy must provide outcomes that are unlikely to have occurred otherwise; Measurable: impact is quantifiable.

objectives are integrated into products' respective investment objectives and strategies.

Financial and investor education

To the extent that securities regulators have adopted and coalesced around consistent sustainable product disclosures, terminology and naming conventions, investor education and outreach could be an appropriate next step. The need for investor education around sustainable investing is important for allowing investors to make informed investment decisions – both in terms of supporting investors who might want to consider ESG options and helping them fully understand the risks and opportunities associated with sustainable investing.

Blackrock estimates that only 11% of people around the world say they are familiar with the term “sustainable investing”, and 19% have never heard the term.⁷ On top of this, sustainable investing has several misperceptions attached to it: over half of people across the world think sustainable investing translates to higher costs, higher risk, and sacrificing returns. Additionally, with heightened interest in ESG issues, investor education efforts around sustainable investing may help facilitate greater investor participation. BlackRock found that 56% of people would invest if doing so was aligned with their personal values and approximately 40% of non-investors said sustainable options would encourage them to invest for the first time.⁸ The potential role that investor education could play in mitigating this information gap underscores the need first to have both a comparable and consistent disclosure framework and a consistent terminology for sustainable investing.

We hope you found these comments useful as you assess the recommendations set forth for sustainability practices, policies, procedures, and disclosures in asset management. These recommendations will serve as a critical foundation to spurring global harmonization in the oversight of sustainability-related products, ultimately allowing for greater transparency for investors and empowering their investment decision-making. Should you have any questions, please do not hesitate to contact us.

Sincerely,

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⁷ Figures from BlackRock's [People & Money 2020](#) report. This survey was fielded between November 2019 and January 2020, with 26,814 respondents in 18 markets.

⁸ Ibid.

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