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asset management group

June 15, 2021

Sustainability Accounting Standards Board (SASB)
1045 Sansom Street, Suite 450
San Francisco, CA 94111

Submitted via SASB Online Comment Portal

Re: Proposed Changes to the SASB Asset Management & Custody Activities Standard – Invitation to Comment on Exposure Draft and Basis for Conclusions

To Whom It May Concern:

On behalf of the Asset Management Group of the Securities Industry and Financial Markets Association ("SIFMA AMG" or "AMG")[1], we appreciate the opportunity to comment on the proposed changes to the SASB Asset Management & Custody Activities Standard (the "Exposure Draft").[2] SIFMA AMG supports SASB's continued efforts to develop industry-specific sustainability accounting standards. We believe the SASB standards could provide the industry with a key reporting framework that could help facilitate better disclosure of material sustainability information to investors. In that light, SIFMA AMG supports the Exposure Draft's proposed changes that would remove the "Systemic Risk Management" section from the SASB Asset Management & Custody Activities Standard.[3]

SIFMA AMG believes the Systemic Risk Management section includes outdated and disproven language that has been abandoned by all relevant regulatory bodies. The continued inclusion of the Systemic Risk Management section undermines the effectiveness of the Asset Management & Custody Activities Standard. We believe the section's narrative and required disclosures are misaligned with current regulatory frameworks and confuse investors with information not relevant to sustainability. The SASB standards should only include disclosures with a clear connection to sustainability, and to that effect, SASB should continually evaluate their standards to ensure the required information is relevant. Removing the Systemic Risk Management section is a necessary step to optimize the efficacy of the SASB Asset Management & Custody Activities Standard.

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[1] SIFMA AMG brings the asset management community together to provide views on U.S. and global policy and to create industry best practices. SIFMA AMG's members represent U.S. and global asset management firms whose combined assets under management exceed $45 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds. For more information, visit http://www.sifma.org/amg.

[2] Proposed Changes to the SASB Asset Management & Custody Activities Standard. Invitation to Comment on Exposure Draft and Basis for Conclusions (March 2021), available at https://www.sasb.org/standards/process/active-projects/systemic-risk-in-asset-management/#.

[3] *Exposure Draft* at 42.

I. **Question 1:** *Do you support the proposed removal of the accounting metric FN-AC-550a.1. Percentage of open-ended fund assets under management by category of liquidity classification? Please explain why or why not.*

SIFMA AMG supports the removal of the Systemic Risk Management section in its entirety, which would include removing accounting metric FN-AC-550a.1.

Accounting metric FN-AC-550a.1 requires the disclosure of the percentage of open-end fund assets under management by category of liquidity classification. The required liquidity classifications include: (1) highly liquid investments, (2) moderately liquid investments, (3) less liquid investments, and (4) illiquid investments.[4] FN-AC-550a.1, when published, was originally aligned with the Securities and Exchange Commission's ("SEC") Rule 22e-4. However, as the Exposure Draft notes, the SEC rescinded this requirement in 2018 when the agency adopted amendments to its forms designed to improve the reporting and disclosure of liquidity information by registered open-end investment companies.[5] Due to this material change, SASB has received feedback that accounting metric FN-AC-550a.1 should be removed.

SIFMA AMG agrees with the feedback SASB has received suggesting that SASB remove all of FN-AC-550a.1. As noted in SIFMA AMG's 2018 letter to the SEC in response to the changes to Rule 22e-4, AMG has long held that this information would not be useful and could only serve to confuse and mislead investors. One reason for such confusion is that asset managers manage liquidity at the individual fund level. Any metric that would require asset managers to aggregate liquidity classifications (or positions generally) across all funds would create a misleading data set that provides no meaningful benefit to investors. Applying an aggregation concept in this manner would seemingly ignore the practical and legal structure of a complex set of funds. In the event that SASB does not completely eliminate the entire section, we believe at a minimum metric FN-AC-550a.1 is problematic and should be removed.

II. **Question 2:** *Do you support the proposed removal of the Systemic Risk Management disclosure topic as currently covered in the standard? Please explain your rationale.*

SIFMA AMG supports the removal of the Systemic Risk Management disclosure topic in its entirety, including both the underlying accounting metrics and the scope and narrative of the topic.

AMG believes the narrative and underlying justification for requiring the disclosure of Systemic Risk Management accounting metrics mischaracterizes the risks posed by asset managers, and existing regulatory frameworks. As discussed within the Exposure Draft, the Systemic Risk Management section of the Asset Management & Custody Activities Standard was published prior

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[4] *SASB Asset Management & Custody Activities Sustainability Accounting Standar*d (October 2018), page 27-30.

[5] Securities and Exchange Commission, 17 CFR Part 274, Investment Company Liquidity Disclosure, https://www.sec.gov/rules/final/2018/ic33142.pdf.

to the 2019 Financial Stability Oversight Council's ("FSOC") final guidance on nonbank designations.[6] The FSOC has spent a significant amount of time assessing risks posed by the asset management industry, and in their 2019 guidance, FSOC shifted to an activities-based approach for identifying, assessing, and addressing potential risks and threats to U.S. financial stability after undertaking a thorough review. While SASB's "Topic Summary" within the Systemic Risk Management section may have reflected certain regulatory thought directly after the financial crisis, it has been disproven and abandoned and is no longer in line with existing regulatory guidance and frameworks. Overall, AMG agrees with the feedback that SASB has received from stakeholders that the existing Systemic Risk Management disclosure topic is not applicable to the asset management industry.

In addition to material regulatory changes that have undermined the efficacy of the Systemic Risk Management Section, AMG further believes that the required disclosures in this section are not relevant to sustainability. While the SASB Standards use a broad definition of the term "sustainability," the accounting metrics included within the Systemic Risk Management section are not relevant when compared to the other SASB disclosures. There is a clear difference in the information requested in this section when compared to those requested throughout the SASB Standard for asset managers. In our view, whether asset managers pose a systemic risk is not an issue of sustainability. Moreover, even if the information requested in the Systemic Risk Management section were to be provided, it would significantly increase the size and complexity of disclosures without significant justification. Providing lengthy, complex disclosures would run counter to SASB's goal of providing decision-useful information to investors.

Finally, we agree with SASB that the standards put forth should refrain from involving itself in a broader discussion of systemic risk management or debate the impact of asset managers on the financial system.[7] As the metrics included in the SASB standards were intended to provide information on sustainability, and not supplement regulatory frameworks for systemic risk, the SASB Standards should avoid any request for disclosure of information not currently required under the existing regulatory framework. We implore SASB to follow the lead of FSOC and other regulatory authorities who continually assess what information is necessary for investors to understand the risks of certain asset managers.

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[6] Financial Stability Oversight Council Issues Final Guidance on Nonbank Designations (December 4, 2019), available at https://home.treasury.gov/news/press-releases/sm844. *See also,* SIFMA AMG Response to FSOC Proposed Interpretive Guidance re: Authority to Require Supervision and Regulation of Certain Nonbank Financial Institutions (May 13, 2019), available at https://www.sifma.org/wp-content/uploads/2019/05/Active_75778944_1_SIFMA-AMG-LETTER-TO-FSOC-MAY-13-2019-FINAL-PDF.pdf.

[7] Anton Gorodniuk, *Call for Feedback: Systemic Risk* (February 7, 2020), available at https://www.sasb.org/blog/call-for-feedback-systemic-risk/.

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SIFMA AMG is supportive of SASB's continued efforts to update the SASB Asset Management & Custody Activities Standards as it can be an important tool for investors in understanding and assessing sustainability risks. By removing the Systemic Risk Management section in their entirety, including accounting metric FN-AC-550a.1, SASB would improve the usefulness of the Standards and avoid encouraging the provision of misleading information to investors. Our members sincerely appreciate the opportunity to provide these comments and your consideration of these views. We welcome the opportunity to discuss these views with SASB. Please feel free to reach out to Lindsey Keljo at lkeljo@sifma.org or 202-962-0731 or Andrew Ruggiero at aruggiero@sifma.org or 212-313-1128.

Sincerely,

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