

**AllianzGI response to SEC consultation on climate change disclosures**

**Key Messages:**

- **Need for global alignment on ESG and climate disclosures.** Allianz Global Investors (“AllianzGI”) is supportive of the SEC evaluation of climate-related disclosure rules and the need for disclosure of consistent, comparable, and reliable information on climate change. We strongly recommend the SEC to develop its rules in close alignment with existing climate-related (disclosure) regulation and other major initiatives and to work together with other international legislators towards a global standard for climate-related disclosures.
- **ESG investing requires double materiality.** AllianzGI is a strong proponent of the so-called “double materiality” principle in ESG, in which financial materiality and environmental and social materiality co-exist. We disagree with the “single materiality” approach, which is not only an oversimplification but in fact serves to deny the key importance of ESG factors in the investment process. We are convinced that double materiality is key to achieving ESG goals and sustainable finance, and with double materiality being a reality of the EU sustainable finance framework, we also caution that a single materiality approach in other key jurisdictions would add to rather than bridge any discrepancies between different regional ESG ambitions and approaches.

**Additional Messages:**

- **Global Standards.** A globally harmonized approach to sustainability reporting is in our view essential to ensure that climate and other disclosures are consistent and comparable. Ideally, such disclosures should be made through a central regulatory data repository, ensuring a high quality and consistency and reducing costs and as a result democratising access to reporting data to all investors. As long as a harmonized approach to reporting is lacking, consistency, reliability and access to data is heavily impaired and cost consuming.

With increased roll-out globally of local ESG standards, global asset management firms will be subject to a multitude of duplicative and potentially conflicting (substantive and reporting) frameworks and requirements. This would result in increased costs and loss of efficiency for asset managers, ultimately at the expense of investors and society at large, while also other users of the reported information would have difficulty in accessing and comparing data reported under various reporting standards and requirements, limiting the usefulness and reliability of sustainability reporting.

The International Financial Reporting Standards (IFRS) Foundation's ambition to become a global standard setter for sustainability reporting is therefore a step in the right direction. However, we are a strong proponent materiality perspective as put forward by the International Sustainability Standards Board (ISSB) and would welcome if the IFRS Foundation would also cover a double materiality perspective, for reasons outlined above.

- **Leveraging Existing Frameworks.** We recommend that the results of broadly established pioneering work, experience and built-up expertise of organizations already dedicated to climate disclosure, especially the Taskforce on Climate-related Financial Disclosures (TCFD) framework, become cornerstones of the global standards and national requirements for climate and potentially also other ESG related disclosures as discussed above.

AllianzGI became an official supporter of the TCFD Recommendations in 2019 following our parent company Allianz SE. We recommend elevating the TCFD Recommendations to a (global) standard and of incorporating them in national regulation by reference. The Recommendations provide views on metrics but are principle based and allow for proportionate discretionary implementation where needed. Since no official market standard has yet evolved, the discretion granted to financial firms is essential to allow them to assess, decide and disclose which metrics they can and will apply, implementing the Recommendations at a pace commensurate with their relevant activities. This will ensure proportionality in an asset management environment in which different firms have vastly different investment styles across many asset classes.

- **Reliance on Issuer Disclosures.** Current sustainable finance legislation makes financial firms the key custodians of sustainable development. To fulfil the requirements pertaining to that role, financial institutions are dependent on the accuracy and comprehensiveness of data disclosed by corporates and other issuers. Consistency of corporate disclosures is essential for effective disclosure by financial firms.

Disclosure guidelines for financial institutions should realistically reflect the current availability and quality of climate-related disclosure by corporate issuers, as well as the broader availability and quality of data and information from third parties such as sustainability ratings agencies. Ideally a global push should be made for a central data depository.

Corporate disclosures should be broad and mandatory for all issuer types. Where there is a requirement for investors and financial institutions to disclose any sustainability data, this should override and color in the principle of issuers disclosing "material" data: where investors are required to disclose on a specific aspect, the materiality thereof should be a given.

Finally, as sustainable investment regulation is adding new dimension of data to be considered in investment analysis as well as reporting, it is important to create a data ecosystem which supports investors and issuers towards more operational efficiency to

provide and obtain relevant ESG data. IOSCO would be optimally positioned to guide on global alignment for such data infrastructure.

- **A central digital repository for ESG disclosures.** AllianzGI is supportive of having a central repository of all sustainability related data, such as the ESAP (European Single Access Point) initiative in the EU. Alignment with standards such as, for example, TCFD, GRI and SASB is important. We especially recognise the global trend towards these standards; as such, reporting in accordance with these standards must be fully supported by the central data repository. The benefits of such a repository should also be considered in the light of synergies with (a) other standards, and (b) expansion for voluntary disclosures by the issuers.

A central data repository, created and maintained by a (financial markets) regulator, could democratise the ESG data market. It would allow issuers to use the repository for the many disclosure purposes and obligations that they have, thus minimising the strain of such requirements. This would likely put a halt to the current situation in which issuers need to provide data to numerous ESG data providers, which in turn sell this information to investors at a high cost. The more data is mandatorily submitted to the regulatory database, the more efficient ESG data usage by investment firms can become. With the additional transparency from such a database, there will be less of an excess surcharge on the data itself and more of a focus on value-added services such as its analysis, which will reduce ESG data costs overall and make it more widely available. Data is expected to also be of better quality as companies will not risk misreporting to a regulator.

- **Taxonomy.** Despite its flaws, having an ESG Taxonomy has enabled a meaningful, science-based conversation about what is sustainable should definitely be mentioned and respected. Without the framework and definitions of a Taxonomy, only political guidance would be available and different views of what is sustainable and what not could neither be meaningfully compared nor discussed.
- **Harmonisation.** The various disclosure regimes currently in existence for climate-related risks vary considerably in many respects, resulting inter alia in inconsistent and not comparable climate-related issuer data, on which in turn financial firms' disclosures depend (as discussed). A mandatory, harmonised disclosure would address this and at the same time facilitate international alignment. The window of opportunity to achieve such harmonised disclosure requirements is limited and all relevant aspects of disclosure must be addressed.

Where individual jurisdictions require changes, approvals and notifications to pre-existing frameworks, the global nature of financial firms and asset managers' businesses generally will entail that such changes be performed across the entire fund spectrum and across multiple jurisdictions. We therefore recommend both alignment and harmonisation of rules and principle based requirements where possible, to avoid either compartmentation of markets or additional burden on asset managers and excessive costs for (essentially global) sustainable investment products, both of which would be detrimental to the ultimate goal of (mainstreaming) sustainable finance.

- **Governance.** Climate-related and other ESG matters are best dealt with in a globally coordinated fashion at group level, part or most of which may take place outside the direct sphere of the local board's supervision role. It makes therefore sense to rely on the headquarters legal entity of the group to implement these governance requirements. This does not contradict to the TCFD Recommendations.
- **Addressee of Requirements.** In situations in which one asset management company manages multiple investment funds as well as discretionary accounts, aspects of governance, investment management and risk management will in many case be applied by such asset management company across most if not all of its activities. On the one hand, this reduces the relevance of the distinction between the management of funds and discretionary accounts for the purpose of the proposed requirements but on the other hand raises a concern about the scope of certain requirements and the legal entity by which these requirements will have to be implemented.

In addition, in asset management companies being part of a multi-jurisdictional or even global group of asset management companies or financial firms, many of the abovementioned aspects will be aligned and applied identically between the various group entities. This notion entails that relevant processes and policies be allocated at group level and are adhered to in the operations of the individual local asset management companies.

We trust the comments raised in our response to this consultation will prove helpful to you in assessing which learnings thereof would be relevant globally and for the SEC in particular in its effort towards designing sustainable finance legislation for such important market as the US. At AllianzGI we will be more than welcome to provide the SEC with any further background or insights as you might desire in connection with these important topics.

*Allianz Global Investors*

*June 2021*

**Nina Hodzic**

Head of Sustainable Investment Office

[REDACTED]

[REDACTED]

**Felix J.L. Arons**

Senior Policy and Regulatory Affairs Adviser

[REDACTED]

[REDACTED]