

MEMO# 33586

June 11, 2021

ICI Files Letter Supporting SASB Proposal to Remove Systemic Risk Management Topic for Asset Managers

[33586]

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TO: ICI Members
Investment Company Directors
ICI Global Members SUBJECTS: Disclosure
ESG
Financial Stability
Fund Accounting & Financial Reporting
Investment Advisers RE: ICI Files Letter Supporting SASB Proposal to Remove Systemic Risk Management Topic for Asset Managers

The Sustainability Accounting Standards Board (SASB) has proposed changes to its Asset Management & Custody Activities Standard on the issue of systemic risk management.[\[1\]](#) ICI filed the attached comment letter in support of SASB's proposal. This memorandum briefly describes the SASB proposal and ICI's letter.

Summary of SASB Proposal

SASB currently has a Systemic Risk Management topic for reporting accounting metrics at the asset manager level, including:

- Percentage of aggregate open-end fund assets under management by category of liquidity classification, using the liquidity buckets from SEC Rule 22e-4;
- Narrative description of approach to liquidity risk management programs;
- Total exposure to securities financing transactions; and
- Net exposure to written credit derivatives.

The SASB Systemic Risk Management topic was originally designed to measure the potential for firms engaged in asset management activities to pose, amplify, or transmit a threat to the financial system based on liquidity, leverage, and interconnectedness of assets under their management.

According to the consultation, approval of the topic in November 2018 was "based on the

experts' views, at the time, that companies in the industry might compromise the stability of the financial system, which could then lead to significant and widespread negative social impacts." Inclusion of this topic thus reflected the regulatory stance in some countries that asset managers could be designated as systemically important financial institutions (SIFIs) subject to heightened oversight and stricter regulatory requirements.

The consultation explains that regulatory changes since that time suggest concerns about the usefulness of the topic. SASB asks for feedback on the following questions:

- Do you support the proposed removal of the accounting metric FN-AC550a.1. (Percentage of open-end fund assets under management by category of liquidity classification)?
- Do you support the proposed removal of the Systemic Risk Management disclosure topic as currently covered in the standard?
- Do you believe that the social impacts associated with enterprise risk management are reasonably likely to be financially material to a typical financial institution in the Asset Management & Custody Activities industry?

The consultation states that SASB may "improve" this topic by "addressing enterprise risk management and the potential resulting social externalities in the industry," although SASB is not currently proposing to do so. The consultation explains that its decision "is primarily based on input from market participants and staff research that suggests significant feasibility challenges associated with developing a disclosure topic and accounting metrics that address enterprise risk management and produce decision-useful information for investors in a cost-effective manner."

Overview of ICI's Comment Letter

- In December 2020, ICI's Board of Governors formally resolved to encourage US public companies to provide disclosures consistent with SASB standards.[\[2\]](#) The Board of Governors determined to take this action to promote fund managers' access to company ESG-related information for conducting strategy-related analysis and making informed investment and proxy voting decisions on behalf of fund shareholders.
- ICI supports SASB's proposal to remove the Systemic Risk Management topic for asset managers, along with all the associated accounting metrics.
- As written, the topic does not appropriately recognize the agency nature of the asset management business and improperly conflates risks at the manager level with risks at the client level.
- As SASB acknowledges, the topic is reflective of regulatory discussions following the global financial crisis about the potential for systemic effects from a single asset manager. Since that time, policymakers correctly have recognized that this approach is not consistent with the nature of the asset management business. The US Financial Stability Oversight Council and the Financial Stability Board now recognize that any potential systemic risk in asset management is best evaluated and addressed at the product/activity level.

ICI concurs with SASB's conclusion that it should not take positions contrary or additive to those currently established by global regulators or engage in broader discussion of systemic risk management or debate the impact of asset managers on the financial system.

Associate General Counsel & Corporate Secretary

Bridget Farrell
Assistant General Counsel

endnotes

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

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

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