Public Statement

Prepared Remarks Before the Asset Management Advisory Committee

Chair Gary Gensler

July 7, 2021

Thank you for the kind introduction. I enjoyed chatting with you a couple of weeks ago, Ed, and it's good to meet with the whole committee for the first time.

I'm grateful for your time and willingness to give us advice on the asset management industry. I look forward to hearing the readouts from your various subcommittees on environmental, social, and governance investing; diversity and inclusion; and private investments.

I wanted to share some thoughts on these topics — in particular, on funds that hold themselves out to the public as investing with an emphasis on sustainability, and on diversity in the asset management industry.

First, on sustainability, I'd like to discuss fund disclosure and fund names.

The basic idea is truth in advertising. We've seen a growing number of funds market themselves as "green," "sustainable," "low-carbon," and so on.

While the estimated size of this sector varies, one estimate says there are at least 800 registered investment companies with more than $3 trillion in ESG assets last year.[1] Suffice it to say there are hundreds of funds and potentially trillions of dollars under management in this space.

What information stands behind those claims that a fund is "green" or "sustainable"?

When I think about these questions, I'm reminded of walking down the aisle of a grocery store and seeing a product like fat-free milk.

What does "fat-free" mean? Well, in this case, you can see objective figures, like grams of fat, which are detailed on the nutrition label.

In investing, funds often disclose objective metrics as well. A "high-yield bond fund" tends to disclose things like summaries of the underlying bonds' credit ratings and interest rates. Investors get a window into the criteria used by the asset managers for the fund, and the data that underlies the name.

When it comes to sustainability-related investing, though, there's currently a huge range of what asset managers might mean by certain terms or what criteria they use.

Some of these funds screen out certain industries, like fossil fuels, tobacco, or nuclear energy.

Other funds make assertions about the greenhouse gas emissions or water sustainability of their underlying assets.

Some funds involve human judgments about the kinds of investments that would do best under a "net-zero" economy. Others might track an outside index.

Many funds use terms like “green” or “sustainable.” Even though those terms are a little less objective than “fat-free” milk, still, those labels say a lot to investors.

Which data and criteria are asset managers using to ensure they’re meeting investors’ targets — the people to whom they’ve marketed themselves as “sustainable” or “green”?

I think investors should be able to drill down to see what’s under the hood of these funds.

As there’s not a standardized meaning of these sustainability-related terms, I’ve asked staff to consider recommendations about whether fund managers should disclose the criteria and underlying data they use.

This work takes place in concert with the agency’s ongoing efforts to update the public company disclosure regimes on climate risk and human capital.

On a related note, as the asset management industry has evolved, the use of third-party service providers has grown. These third-party companies offer tools, such as ratings, which often make sustainability-related claims as well.

This raises a number of questions about what data underpin those assertions, whether those service providers are providing investment advice, and what advisers’ responsibilities are with respect to their use of such services.

While many of these issues apply to funds with sustainability-related investments, I’ve also asked staff to take a holistic look at naming conventions.

A fund’s name is one of the first pieces of information that investors see. If a fund’s name suggests a certain investment focus, investors expect investment in that area.

Congress established laws about fund naming conventions long ago through the Investment Company Act of 1940.

The agency last updated naming conventions in 2001, under the Names Rule. A lot has happened in our capital markets in the past two decades, though.

For example, one aspect of the Names Rule says that if a fund’s name suggests a particular investment type, the fund must invest at least 80 percent of the value of its assets in that investment type.

That 80 percent policy pertains to investment types, as distinguished from investment strategies. I’ve asked staff whether that distinction between investment type and strategy is still relevant today. To me, it may well be a distinction without a meaningful difference. Regardless of the kind of fund, I believe investors benefit from seeing the criteria and data underlying investment decisions.

Together, I think updates to fund disclosures and to naming conventions could bring needed transparency to the asset management industry, particularly in light of the significant growth in the sustainability area. This gets to the heart of the SEC’s mission to protect investors and efficiently allocate capital.

Next, I’d like to discuss diversity and inclusion.

As your committee reports, the asset management industry has a lot of work to do to increase racial and gender diversity.

Your subcommittee’s recommendations note that women and people of color “remain dramatically underrepresented…at the board and senior management levels within asset management firms and fund complexes,” as well as at the fund ownership level.[2]

This committee has recommended that transparency is a key first step in improving the diversity and inclusion practices of the asset management industry.

I have asked SEC staff to consider ways that we can enhance such transparency.

For example, this could include requiring disclosure of aggregated demographic information about an adviser’s employees and owners. It also could include information about an adviser’s diversity and inclusion practices in its selection of other advisers.

I look forward to your thoughts about how the workforce in the asset management industry can better represent the great diversity of our nation.

Beyond the topics you're discussing today, our unified agenda, published last month, touches on a number of areas related to asset management — from money market fund reforms, to private funds, to proxy voting.

I encourage you all to be active participants as we develop those rulemakings and put them out to public comment — particularly as they affect investors in your funds.

Thank you.

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[1] *See* US SIF, "Sustainable Investing Basics," *available at* https://www.ussif.org/sribasics.

[2] *See* SEC Asset Management Advisory Committee - Subcommittee on Diversity and Inclusion, "Recommendations for Consideration by the AMAC on July 7, 2021," *available at* https://www.sec.gov/files/amac-recommendations-di-subcommittee-070721.pdf.