The buy-side supports improving sustainability disclosure for the $12 trillion securitised finance market

Members of ICMA's Asset Management and Investors Council (AMIC), who oversee over $20 trillion of dollars in AUM, identify ESG investing as a key priority (i.e., the integration of material sustainability factors into investment decisions). Growing demands from asset owners and greater regulatory scrutiny are driving the investment industry. Clients require information not only on portfolio ESG performance, but are also asking transparency on underlying assets, and if appropriate, stewardship. This extends across traditional and alternative investments.

ESG investing uses data inputs into a methodology to score and assess issuers or instruments. Corporate ESG disclosure has been used to produce corporate issuer ratings for more than 30-years. Non-standardised and inconsistent disclosure has been a persistent issue, but many regulators now identify this as priority.

While many jurisdictions have announced mandatory corporate disclosure on climate-related factors (e.g., Task Force on Climate-related Financial Disclosures (TCFD) reporting in the UK, Taxonomy reporting and upcoming NFRD review in the EU), we anticipate that these improvements will enhance ESG transparency unequally across asset classes.

The Asset-Backed Securities (ABS) investment universe (which includes mortgage-backed securities, commercial-backed securities, auto loan securitisation, collateralised loan obligations, whole business securitisation), often suffers from a paucity of relevant and standardised ESG information and may not fully benefit from these regulatory developments. This may impact investors' ability to align with emerging rules (notably SFDR in the EU) and capitalise on sustainability objectives in post-COVID 19 recovery plans.

Unlike the corporate bond market, there are no third-party sources of ESG data for the ABS investment universe. For example, rating agencies that provide credit assessments on ABS do not typically opine on ESG (unless it materially impacts their credit assessment). Lacking relevant and standardised data can make it difficult for investors to accurately and effectively appraise ESG risks. ABS investors also risk penalties as regulators and clients set more sustainability-related requirements. More scrutiny on the buy-side is welcome, but unless investors have better access to standardised and relevant data they will be unable to satisfy broader sustainability objectives. However if investors have better access to relevant and standardised ESG data they will be able to increase their investments into sustainable assets at a time when this is greatly needed by wider society.

In the EU and the UK, we are starting to see some improvements with environmental reporting for RMBS and auto-loans thanks to securitisation regulations. The European Parliament and the Council proposal to introduce broader ESG indicators for the entire securitised markets is also encouraging. Following the formal adoption of this text, the EBA (in coordination with ESMA & EIOPA) will have to develop a report on sustainable disclosure requirements for securitised assets by 1 November 2021, which should be followed by a legal proposal by the EC.

Key performance indicators (KPIs) are not a silver bullet but they are essential. They can provide standardised raw information for further analysis by asset managers (i.e., collection of qualitative information and due diligence) to improve comparability of companies' or originators' performance. Adopting KPIs for each sub-asset class can, also facilitate the reporting process and transparency on material sustainability issues to underlying investors.

The characteristics of the asset class should reflect the choice of KPIs. The EU Taxonomy and SFDR reporting guidelines might not always be the most appropriate set of sustainability metrics. We believe KPIs for the securitisation industry covering broad parts of the asset class are achievable and necessary. Metrics can and should be designed that are accessible, of sufficient quality and applicable to different jurisdictions.

AMIC members therefore encourage local regulators to prioritise five objectives:

- **Disclosure of material and standardised ESG data for collateral asset pools**: We identify asymmetries of information between what ESG data investors have access to and what may be material to the sustainability risks of collateral pools.

- **Reporting of material ESG risks at least annually**: Investors require ESG data for accurately appraising the risks of securitised instruments and the frequency of this data will ensure the efficient pricing of these risks over time.

- **Support market participants to introduce ESG metrics:** Market stakeholders understand the challenges and requirements to embed sustainability disclosures. Encouraging the market to introduce ESG metrics that originators and investors can implement widens buy-in and priorities achievable outcomes.

- **Introduce specific 'green' securitisation metrics and standards:** To encourage and support the nascent green-labelled structured market specific green KPIs are relevant to ensure the market has legitimacy and comparability.

- **Collaboration between the structured finance industry and regulators**: Support from regulators will be required to collate and approve data transfers and embed further market changes. To make this happen investors and regulators will need to work together.

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