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March 8, 2022

Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1300 I Street NW, Suite 1000
Washington, DC 20005
Submitted Electronically

Re: Request for Information on Environmental, Social and Governance (ESG) Practices in the Municipal Securities Market, MSRB Notice 2021-17

Dear Mr. Smith:

Teachers Insurance and Annuity Association of America ("TIAA") and its wholly-owned subsidiary Nuveen, LLC ("Nuveen"), referred to together as TIAA, welcome the opportunity to submit this comment in response to the request for information on ESG practices in the municipal securities market (the "RFI")[1] issued by the Municipal Securities Rulemaking Board (the "MSRB"). We recognize that this RFI is part of the MSRB's broader engagement on ESG issues in the municipal securities market, and we support the MSRB's efforts to carefully examine the ways in which the rapidly-evolving field of ESG investing presents issues that are unique to municipal securities issuers and investors. As investor interest in and demand for sustainable investment products grow, regulators and standard-setting bodies are well advised to study the current regulatory framework around ESG investing and consider whether enhancements are appropriate. Given Nuveen's long history and leadership in the municipal bond market, coupled with our organization's responsible investing expertise, we are especially appreciative of the chance to share our perspective on how best to strengthen investor protections, as well as greater fairness and efficiency in the market, by improving the quality and availability of ESG-related information disclosed by issuers. With that perspective in mind, we offer our comments below, both generally and in response to certain questions set forth in the RFI.

I. <u>About TIAA and Nuveen</u>.

Founded in 1918, TIAA is the leading provider of retirement services for those in academic, research, medical, and cultural fields. Over its century-long history, TIAA's mission has always been to aid and strengthen the institutions and participants it serves and to provide financial products that meet their needs. To carry out this mission, TIAA has evolved to include a range of

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1 *Request for Information on Environmental, Social and Governance (ESG) Practices in the Municipal Securities Market,* MSRB Notice 2021-17 (Dec. 8, 2021), *available at*: https://www.msrb.org/-/media/Files/Regulatory-Notices/RFCs/2021-17.ashx?.

financial services, including asset management and retail services. Today, TIAA's investment model and long-term approach serve more than five million retirement-plan participants at more than 15,000 institutions. With its strong nonprofit heritage, TIAA remains committed to our mission of serving the financial needs of those who serve the greater good.

Nuveen, the investment management arm of TIAA, offers a comprehensive range of outcome-focused investment solutions designed to secure the long-term financial goals of institutional and individual investors. The Nuveen organization includes investment advisers that collectively manage over $1 trillion in assets, including in the Nuveen and TIAA-CREF registered fund complexes, as well as in private funds, structured vehicles, and separately managed accounts. Nuveen has extensive experience in the municipal securities market, and ranks as the one of the largest municipal bond fund managers in the United States.[2] Based on decades of responsible investing expertise, Nuveen has developed a rigorous in-house, data-driven methodology to assess municipal ESG leadership, tailored to individual municipal bond sectors. Nuveen is also an active participant in, and in some cases is a founding member of, organizations that have shaped the responsible investing field over the past five decades, including the UN Principles for Responsible Investment's Sub-Sovereign Debt Advisory Committee, the Government Finance Officers Association ("GFOA"), and the California Debt and Investment Advisory Commission ("CDIAC"). By participating in working groups focused on responsible investing as well as traditional public finance, Nuveen helps bridge gaps in conversations that have historically left ESG out of the municipal market. Through these partnerships, Nuveen is helping to advance ESG disclosure and best practices in the field, bringing focus and client interest to this growing area.

II. **Expanded issuer disclosure of ESG data is needed to increase ESG integration in the municipal securities industry.**

Over the past decade, the integration of ESG factors into investment analysis and decision-making has become widespread in the public equities and corporate taxable fixed income markets. The municipal securities market, on the other hand, has been slower to adopt ESG integration as a common practice. There are several reasons for this disparity, in our view – but we believe the primary driver of this gap is a lack of quality ESG data from municipal issuers. The municipal market lacks third-party ESG ratings from the types of data providers that offer valuable inputs into the equity and taxable fixed income markets. The sheer volume of municipal issuers and the relative lack of standardized ESG disclosure by these issuers contribute further to this gap. As a result, very few municipal strategies explicitly integrate ESG factors or ratings, and those that do tend to focus on social and green labeled bonds.

For Nuveen, when paired with our in-depth fundamental municipal credit expertise, ESG integration serves as another tool to evaluate municipal issuers for clients that seek to align their investments with their values. Our proprietary ESG scores are available for consideration to all Nuveen municipal analysts and portfolio managers, and are part of the investment criteria in our ESG-focused municipal bond strategies. In ESG portfolios, our disciplined investment process

2 Morningstar Direct as of 30 Sep 2021. Based on total net assets of U.S. open-end funds for the Nuveen Family of Funds and the TIAA-CREF Funds, excluding exchange-traded funds, money market funds and fund of funds. Based on a review of 658 fund families and 109 fund families with municipal offerings.

begins with the client's objectives, incorporates analysis from the credit research team, and includes the ESG score as a component of the process. While Nuveen has the resources and expertise to develop its own robust ESG methodology, our investment process would be enhanced if we had greater access to quality, consistent ESG data from municipal issuers, disclosed in a uniform format. What's more, we recognize that many municipal securities investors lack access to the type of ESG-related data they need from issuers to make fully informed investment decisions. We acknowledge that municipal issuers are required under federal securities laws to disclose all material information, which includes material ESG-related information. But issuers vary widely in their interpretations of the materiality of ESG data – and even where issuers do choose to disclose ESG-related information, those disclosures are often inconsistent in scope and level of detail, making it difficult for investors to make comparisons across all issuers.

III. TIAA would support enhanced ESG disclosure requirements for municipal issuers.

Given the rapidly evolving nature of ESG investing and the significant inconsistencies in issuer disclosure of ESG-related information, we believe *all* investors stand to benefit from expanded access to reliable, comparable ESG data from municipal issuers. For that reason, we would support the creation of a new disclosure framework that requires municipal issuers to publicly provide high-quality ESG-related information in a consistent, easily accessible format. Specifically, and as discussed in more detail below, we recommend that any new ESG disclosure standards for municipal issuers should be sector-specific; include detailed information on the issuer's use of bond proceeds; focus on climate mitigation efforts, not just climate risk; and occur periodically so long as the issuer has debt outstanding. In particular, getting more specificity as to an issuer's use of bond proceeds and the relative dollars allocated to each project within a bond offering would help our analysis greatly. We are mindful that many municipal issuers would need to devote significant resources to comply with new disclosure standards along the lines we have described. To ensure that those standards are not unduly burdensome, they would need to be carefully designed to produce the targeted data that investors most need to make informed investment decisions.

We applaud the MSRB for studying those ESG issues and practices that are specific to the municipal securities market and inviting public feedback on the topic. We hope the comments submitted in response to the RFI – including ours – will help prepare the MSRB to engage in an informed and thoughtful manner in the work other regulators may do to improve municipal issuer disclosure of ESG data.

IV. Responses to RFI Questions for Investors in Municipal Securities.

Question 1: Do you consider ESG-related information material to your investment decisions? If so, in what way? Is ESG-related information important to your evaluation of a municipal issuer's creditworthiness? If so, what ESG-related information do you consider most relevant to a municipal issuer's creditworthiness and why?

With respect to Nuveen's ESG-branded investment strategies, high-quality ESG data plays a crucial function. The proprietary, data-driven ESG scoring models Nuveen has developed use

ESG data to quantitatively assign municipal issuers an ESG score from 1 (worst) to 5 (best). The scores differentiate municipal issuers that are considered ESG leaders (those scoring a three or higher) from those that are considered ESG laggards (those scoring a 1 or 2) based on a range of sector-specific ESG factors, aligned with the UN Sustainable Development Goals. The ESG score is available and integrated into the same analytical and portfolio management systems used by all of Nuveen's municipal analysts and portfolio managers.

While we may consider certain ESG information (*e.g.*, climate risk data) in situations related to an issuer's credit rating, in the vast majority of cases, ESG data does not tie directly to creditworthiness. For example, municipal issuers with similar credit ratings may exhibit divergent ESG profiles under our methodology. In a recent white paper discussing innovations in ESG municipal bond investing, Nuveen examined the credit quality and ESG metrics of two state housing finance authorities in Massachusetts and Minnesota.[3] While both agencies maintained relatively similar credit metrics and ratings, their ESG profiles were very different. Specifically, due to a higher local need for public housing and above-average rates of access to public transportation, the Massachusetts housing finance agency was more aligned with the underlying goals of sustainable cities. Under our methodology, the Massachusetts agency ultimately received a higher ESG rating than its Minnesota counterpart due to the various ESG considerations involved. When paired with Nuveen's in-depth fundamental municipal credit expertise, ESG data becomes another tool to evaluate municipal issuers. In this case, an ESG leader can provide the intended outcome (*e.g.*, a higher quality of life) in a more positive way than its peers.

Question 2: Do you generally have access to all the ESG-related information you need to make an informed investment decision? If so, can you identify the source(s) of the information you use (e.g., municipal issuer disclosures on the EMMA® website, other municipal issuer communications, time-of-trade disclosures, third-party data vendors or proprietary analyses)? If not, please identify the gaps in information and market transparency.

Nuveen commits extensive resources to obtaining the ESG-related information we need to implement our methodology. Our sources of information include the EMMA website, the National Center for Education Statistics (for school district data), Medicare (for hospital data), general U.S. Census data, and other public and private data sources. Despite the wealth of resources at our disposal, however, we still faces challenges in acquiring relevant ESG data. We devote a great deal of time and effort to gathering the ESG-related information we need to apply our methodology – and even where reliable sources of data exist, gaps and inconsistencies in these sources' coverage of municipal issuers can make it difficult for us to get comparable data across multiple issuers. In some cases, we are able to engage directly with issuers on particular ESG issues to obtain information we cannot find from other sources. Even where we establish these types of

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[3] *See* Fig. 4, "Innovations in ESG municipal bond investing," (Oct. 1, 2021), *available at*: https://www.nuveen.com/en-us/insights/municipal-bond-investing/Innovation-in-ESG-municipal-bond-investing.

direct contacts, we are still sometimes unable to get the answers we need to determine whether an investment would be suitable from an ESG perspective.

Given the challenges that a well-resourced organization like Nuveen faces in trying to gather relevant ESG-related information, we know it is much harder – and in many cases impossible – for less resourced investors to obtain all the ESG data they need to make informed investment decisions. Investors who do not have access to methodologies like ours would benefit greatly from enhanced issuer disclosure of comparable, reliable ESG-related information. Likewise, Nuveen would benefit from expanded ESG disclosures from issuers. Gaining access to more high-quality ESG information would allow us to refine our methodology by, for example, including more relevant sector-specific factors. We would also spend less time making approximations to account for data gaps, and we would be able to run our proprietary models on a more frequent basis using less manual work. The benefits of requiring issuers to disclose relevant ESG data would be significant and widespread throughout the market, with important implications for retail and sophisticated investors alike.

Question 3: *Does your expectation as to the availability and sufficiency of ESG-related information change depending on whether the purchase of municipal securities is made in the primary market or the secondary market? If so, how?*

We do not expect the quality of ESG-related information to change depending on whether a municipal securities transaction occurs in the primary or secondary market. However, we do expect less availability of ESG data in the secondary market. Investors already have concerns that many municipal issuers are too slow to provide their annual disclosures of standard, non-ESG information that is material (*e.g.*, financial and operating data) to investors. We have no reason to believe that issuers' disclosure of ESG-related information to investors would occur on a more frequent basis. Moreover, issuers are most likely to take the time to disclose relevant ESG data about a municipal bond at the point of new issue. Once that bond has settled, issuers are less incentivized to share additional ESG information with investors – another reason why we expect this data will be less available in the secondary market.

Question 4: *In light of the potential availability of ESG-related information from other sources, how can municipal issuers best present and disseminate their ESG-related information to investors? What topic areas do you believe are most relevant for municipal issuers to include when providing ESG-Related Disclosures? In your view, is it sufficient for ESG-Related Disclosures to just describe material ESG-related risk factors? Is there a benefit to municipal issuers further describing the initiatives and other projects they are pursuing to address such risks?*

As discussed above, many investors still lack access to the type of ESG data that can be particularly helpful in guiding their decisions and is difficult for third-party providers to source. Issuers are well positioned to fill these data gaps, in part by providing narrative descriptions around their ESG risks and practices to give investors real color and detail, as well as more quantitative, metric-driven ESG data. We believe any new disclosure requirements or standards for municipal issuers should be designed to elicit the publication of both types of ESG-related information.

In addition, we recommend that any new disclosure mandate be sector-specific to account for the various ESG risks and opportunities that issuers in different sectors face. While climate risk likely poses challenges to issuers in all sectors, other ESG factors are more variable in their impact across industries. For example, in the healthcare industry, quality of care is vital to determining the social outcomes of a hospital. In the education sector, affordability is a crucial data point for colleges and universities. Water cleanliness may be one of the most important ESG data points in the water/sewer sector. Each industry has its own specific ESG-related challenges, and any new disclosure framework developed by a regulator or other standard-setting body should be carefully tailored to ensure that issuers are required to disclose the data that is most relevant for their specific sector.

We also believe that issuers should include in their disclosure detailed information on their use of bond proceeds. For certain strategies, Nuveen invests in thematic bonds, which directly finance environmentally friendly or socially beneficial projects. With respect to those investments, it is crucial that we have information about how bond proceeds are used to advance environmental projects, (*e.g.*, wind and solar energy, clean drinking water or mass transit infrastructure). But it can be difficult for us to get information about an issuer's use of proceeds that is sufficiently detailed to support our investment decision-making. For example, an issuer's statement that it will use bond proceeds to "fund the 2022 capital plan" tells investors next to nothing about the ESG implications of the issuer's expenditures, and that level of disclosure should be deemed insufficient under any new disclosure regime. Instead, issuers should be required to be specific, providing a detailed accounting of the individual projects funded and the exact dollars allocated to each project. We would also appreciate issuer disclosure of more specific ESG-related expenditures that have been made as part of funded projects (*e.g.*, a new LEED certified building, a brown field to green field conversion, the installation of new energy-conscious HVAC systems or a green roof, etc.). Far beyond labeling a bond with vague terms like "green" or "social" – terms with which an investor might disagree – an issuer's disclosure of this type of detailed information will give investors much more useful insight into the ways the issuer's use of proceeds are furthering certain ESG objectives.

We believe that climate risk has the potential to be material to creditworthiness in some cases, and have begun integrating climate risk considerations into our credit research. Today, issuers may choose to disclose information about a host of climate issues (and are required to disclose such information if it is material), including the damages and remediation expenses incurred by climate-related events. Nuveen also sources external data to help assess the climate risk exposure of various municipal securities from the outside in, but must rely on issuer disclosure to assess whether and how those climate risks are being mitigated. Therefore, we also recommend that in addition to disclosing information about their climate risk, issuers be required under any new disclosure framework to disclose their climate risk mitigation efforts, such as resilience planning or infrastructure improvements. Both types of data are necessary to give investors the full picture of an issuer's climate risk profile.

Finally, we suggest that issuers provide disclosures not just at a single point in time, but rather on a periodic basis, so long as the issuer has debt outstanding. By reporting data throughout the lifecycle of their outstanding debt, issuers can help investors stay up to date on the various ways ESG issues can impact a project over time. We believe these recommendations, taken together, would substantially improve investors' ability to integrate ESG factors into their own investing process, making them more confident and informed as they make investment decisions.

Question 5: *Certain market participants have expressed concerns that, while analysts and investors have expressed their desire for more standardized ESG-Related Disclosures, there is* *no consensus on which data and metrics are important or essential. Do you believe such disclosures should be standardized? Do you believe there is a consensus on which data and metrics are important or essential? If so, can you provide insight as to what consensus you believe does or could exist? If not, what barriers do you believe exist in reaching a consensus?*

To the extent that there is a lack of industry consensus on which ESG-related data and metrics issuers should disclose, we believe it is likely due in part to the fact that ESG disclosure is still a rapidly evolving area, with many U.S. and international regulators and standard-setting bodies continuing to consider and propose different approaches to a new disclosure framework. We are encouraged that industry groups are working on voluntary best practice recommendations and common approaches that may help formulate consensus among member firms and shape disclosure practices.[4] Additionally, any lack of consensus may also be due in part to the fact that there is currently significant variation in the types of disclosures made by municipal issuers on non-ESG issues, so investors have similarly differing opinions with respect to what municipal issuers should disclose, and how. Without a formal framework in place designed to elicit consistent, comparable non-ESG disclosures from municipal issuers, it can be difficult for investors to imagine what a framework for ESG disclosures should look like. With respect to potential ESG-specific data, we think there are a few logical guiding principles that should inform any disclosure framework, which we discuss in our response to Question 4 above.

Question 6: When purchasing municipal securities for ESG-Designated Funds, what ESG-related information is most useful for the investment decision? How do fund managers screen securities to ensure that they meet a fund's criteria? Once purchased, what information is most relevant in assessing that a security continues to meet the ESG criteria established for an ESG-Designated Fund?

While we cannot speak to the investment strategies of other fund managers, and the way certain ESG-related information may be useful to those investment strategies, we describe our own methodology for integrating ESG factors into our municipal investment decisions in our response to Question 1 above. We need high-quality data to support all of the ESG factors that feed into our methodology. We are currently able to source the data we need by doing a great deal of work. But a robust framework that requires consistent, detailed ESG disclosure from issuers would aid our efforts, as well as the investment decision-making processes of so many investors who lack our resources. As described above, the type of ESG data that would be most useful to us in the future would be sector-specific, and would include information on an issuer's use of proceeds, as well as information on an issuer's climate mitigation efforts, reported periodically so long as the issuer has debt outstanding.

Question 7: When purchasing ESG-Labeled Bonds, do you evaluate municipal securities with an independent certification differently from bonds that do not have such a certification? If so, how?

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4 *See, e.g.*, *Debt Management Best Practices*, Government Finance Officers Association, *available at* https://www.gfoa.org/best-practices/debt-best-practices; *The Green Bond Principles,* International Capital Market Association, *available at* https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf; and *The Social Bond Principles*, International Capital Market Association, *available at* https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf.

If not, why not? In your view, what are the benefits to an investor of purchasing a bond with an independent certification?

Our investment process does not take into account whether a bond is ESG-labeled or certified by a third party as being green or socially conscious. Rather than relying on a label or third-party certification, we prefer to source data on how issuers use their bond proceeds to further ESG objectives. For example, a public power authority with a heavy reliance on coal for generation is likely to have poor ESG performance. Yet that same public power authority may issue bonds to construct a wind farm, thereby diversifying its generating assets and reducing its environmental impact. The more detail we can get on a bond's use of proceeds, the better able we are to make an informed decision about investing in that bond.

This is why a formal ESG disclosure regime for municipal issuers would be so helpful. Too often, an issuer describes its use of bond proceeds with generic language like "implement various capital projects" or "construct a new fire station." These examples give little to no visibility into the project being financed or the dollars allocated to them. Perhaps these projects involve the conversion of an abandoned car dealership into a park and playground, or the replacement of leaking water mains with new equipment to eliminate water loss. Maybe the fire station in question will be LEED certified, or will have a green roof or a new HVAC system designed to decrease energy use significantly. These are all details that have the potential to make a meaningful impact – much more so than a third party's decision to certify a bond as green. It is our hope that new disclosure requirements or standards might elicit this level of detail from municipal issuers, giving Nuveen, and investors in municipal securities more generally, an enhanced ability to factor in real, reliable ESG data.

V. **Conclusion**.

Once again, we commend the MSRB for seeking to learn more about ESG practices in the municipal securities market and working to enhance industry dialogue on this important topic. Given our significant experience as a major investor in municipal securities, TIAA hopes the perspective we have shared in this letter will be helpful to the MSRB's work. We believe that a well-designed ESG disclosure framework for municipal issuers would benefit investors and help further the important ESG objectives so many of us care about. We appreciate the MSRB's consideration of our comments, and we welcome further engagement.

Sincerely,

Amy O'Brien

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Yves Denizé