

POSITIONS ON ENVIRONMENTAL, SOCIAL, AND GOVERNANCE INTEGRATION

CFA Institute consistently monitors key debates and evolving issues concerning the role and application of environmental, social, and governance (ESG) information in the investment management process. More thorough consideration of ESG factors by financial professionals can improve the fundamental analysis they undertake and ultimately the investment choices they make.

CFA Institute is specifically focused on the quality and comparability of the ESG information provided by corporate issuers and how to integrate various ESG factors into the investment selection process.

The positions below reflect the organizational views of CFA Institute and are intended to guide understanding of ESG. **For comments or questions, contact:** advocacy@cfainstitute.org, Attention Managing Director of Advocacy.

TOP-LINE VIEWS

- CFA Institute Standards of Professional Conduct require CFA® charterholders to conduct appropriate research and investigation of *all material information* relevant to their investment analyses and portfolio management decisions, recommendations, or actions.
- CFA Institute believes this requirement includes the consideration of material ESG information/considerations (ESG factoring) as an important component of a complete and thorough financial analysis for any actively managed fundamental investment portfolio.
- More broadly, CFA Institute encourages all investment professionals to consider ESG factors, where relevant, as an important part of the analytical and investment decision-making process, regardless of investment style, asset class, or investment approach.
- CFA Institute is strongly focused on developing ESG-focused curricula and educational tools for our members and CFA® Program candidates, as well as for the broader investment management industry.
- ESG disclosures and data being provided by corporate issuers, sometimes referred to as sustainability reporting, require further standardization and refinement to improve the quality, consistency, and comparability of key ESG factors across industry sectors.

- ESG factoring is consistent with a manager's fiduciary duty to consider all relevant information and material risks in investment analysis and decision making.
- ESG investment products—and management services marketed as such—must include adequate and detailed disclosures explaining the specific ESG process being used, with periodic verification that the stated ESG process, analytics, and factoring are occurring.

FAQ ON CFA INSTITUTE ESG POLICY

Organizational Belief

What is our baseline view of ESG in the context of financial analysis and investment management?

- **Does the expanding interest around ESG suggest that CFA charterholders must consider ESG?**
The CFA Program curriculum currently teaches that ESG information can often be material or otherwise useful in the investment decision-making process. Understanding ESG information can lead to a better understanding of a company's complete story (a tile in the whole mosaic).

The curriculum does not say that charterholders *must* consider ESG. However, if an ESG issue is material, it should be considered in the investment process. It is up to the individual manager or analyst (or the investment team) to determine what issues are material to their investment processes.

- **Should CFA Institute suggest or opine that ESG factoring is required?**

We currently provide educational materials for our members and CFA Program candidates on incorporating material ESG into the investment process and how doing so may lead to a more informed analysis. We feel that material ESG information should be included in the investment process, but do not feel we should be prescriptive as to the many paths that lead to ESG integration.

- **Is a more moderate approach indicated, that is, CFA charterholders may or should consider any relevant ESG factors, if they deem those factors material and appropriate for the customer and/or their own professional approach?**

The question posed restates our current position: A better understanding of ESG factoring can make for more informed decision making.

- **Is it necessary for CFA Institute to expressly address ESG consideration in its *Code of Ethics and Standards of Professional Conduct*?**

We do not feel this is necessary. No other type of analysis or specific factor is currently addressed in our Code and Standards, so we do not feel we should do so concerning ESG. Many professionals are integrating ESG factors into their investment processes because they believe doing so adds value. Deciding what processes and tools to use is not the focus of the Code and Standards.

Credentialing

- **Is CFA Institute providing adequate instruction on the issue?**

ESG topics and strategies have been part of the CFA Program curriculum for some time. The curriculum team and

our exam development committees regularly conduct practice analysis sessions to ensure the ESG readings we include in the curriculum reflect current practice. As the ESG landscape continues to evolve, our exam content will evolve accordingly.

Advocacy and Corporate Reporting

- **How is CFA Institute ensuring that its approach regarding the evolution of securities laws and corporate reporting around ESG is on track?**

We maintain awareness of current developments concerning company ESG-reporting and ESG-factoring issues. We are involved with various ESG stakeholder groups, including Principles for Responsible Investment, the International Integrated Reporting Council, and the Sustainability Accounting Standards Board, among others, and stay current with their ongoing efforts for ESG-reporting standards and integration. We support efforts to advance the quality, consistency, and comparability of ESG information so investors can make informed decisions.

Thought Leadership

- **What involvement does CFA Institute have in creating research and other thought leadership on ESG issues?**

Our goal is to be a thought leader on ESG education and to advocate for better ESG reporting and transparency standards. CFA Institute has opportunistically created educational content for our members regarding ESG basics and ESG factoring for investment managers. We will continue to monitor ESG regulatory developments and participate in public consultations on new disclosure and factoring initiatives as they are proposed by various global regulators. Finally, we occasionally collaborate with other thought leaders to amplify our voice on the topic of ESG integration.

