

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 investment professionals can improve the fundamental analysis they undertake and ultimately the investment choices they make for the benefit of their clients.

Within the wide-ranging discussions about environmental, social, and governance issues, 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, which includes investment professionals' ethical responsibility to communicate ESG information to clients.

The positions below reflect the organizational views of CFA Institute. **For comments or questions, contact:** advocacy@cfa institute.org, Attention Managing Director of Advocacy.

TOP-LINE VIEWS

- **Consider All Material Information.** 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.
- **Including Material ESG Factors.** CFA Institute believes this requirement includes the integration of material ESG information/considerations, i.e., material ESG factors as an important component of a complete and thorough financial analysis for any actively managed investment portfolio.
- **We Encourage All Investment Professionals to Consider Material ESG Factors.** More broadly, CFA Institute encourages all investment professionals to consider material 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.
- **We Offer Extensive ESG Related Educational Content and Programming.** 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.
- **We Support Improved Sustainability Reporting by Companies.** ESG disclosures and data provided by corporate issuers, sometimes referred to as sustainability reporting, require further standardization and refinement to improve the quality, consistency, and comparability of material ESG factors across industry sectors.
- **Integration of ESG Factors is Not a Violation or Obligation of the CFA Institute Duty of Care Standards.** Integrating ESG factors into the investment analysis process is left to the professional judgment of the investment professional and as directed by the client. Such integration is consistent with a manager's professional duty to consider all relevant material information in the investment analysis and decision-making process.
- **Disclosure and Transparency Around the Use of ESG Factors.** Investment products and management services claiming to be ESG focused, must include adequate and detailed disclosures explaining how ESG factors are used in the analysis and selection of investments and the ongoing management of the portfolio. This disclosure should be ongoing and dynamic as any terms or conditions related to the ESG integration evolve. CFA Institute is developing standards for such disclosures. Regarding global regulatory consultations requiring ESG disclosures from all regulated managers, CFA Institute would support comply or explain regime.

FAQs ON CFA INSTITUTE ESG POLICY

Organizational Belief

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

- **Does the expanding interest around ESG issues, in general, change what is required of a CFA charterholder concerning integration of ESG factors?**

Neither the CFA Program curriculum nor the CFA Institute's professional Codes and Standards say that charterholders *must* consider ESG factors. However, if an ESG factor 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 factors must be considered?**

No. We currently provide educational materials for our members and CFA Program candidates on incorporating material ESG factors into the investment process and how doing so may lead to a more informed analysis. CFA Institute believes that material ESG information should be included in the investment process, but does not believe the Institute or regulators should mandate the integration of ESG factors.

- **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 client and/or their own professional approach?**

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

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

CFA Institute and its Standards of Professional conduct committee 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 factors. Many professionals are integrating ESG factors into their investment processes because they believe doing so adds value. Deciding which processes and tools to use is not the focus of the Code and Standards.

Credentialing

- **Is CFA Institute providing informed and up-to-date instruction on ESG topics and integration issues?**

CFA has been active in developing ESG research content, practitioner tips and educational manuals on integration approaches and strategies have been part of the CFA Program curriculum continuing education for some time. The curriculum team and exam development committees regularly conduct practice analysis sessions to ensure the ESG readings that are included in the curriculum reflect current practice. As ESG related practices evolve, so does our exam content.

Advocacy and Corporate Reporting

- **How is CFA Institute ensuring that its awareness and coverage of evolving securities laws and corporate reporting around ESG is on track?**

We maintain awareness of developments concerning corporate ESG-reporting and investor ESG-integration issues across global markets. We are involved with numerous ESG-focused stakeholder groups and stay current with ongoing industry developments regarding integration of ESG factors, and standards. We support efforts to advance the quality, consistency, and comparability of ESG disclosures coming from both corporate issuers and investment managers so investors can make more ESG-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 issues by developing practitioner-focused research and resources that educate investment professionals on ESG practices and inform the investment industry. Our ESG research is collectively organized in our ESG content hub: <https://www.cfainstitute.org/en/research/esg-investing>

