

Response Form
for the
Consultation Paper on the development of the
CFA Institute ESG Disclosure Standards for Investment Products

CFA Institute is developing a voluntary, global industry standard, the CFA Institute ESG Disclosure Standards for Investment Products (the “Standard”), to establish disclosure requirements for investment products with ESG-related features. The purpose of the Standard is to provide greater transparency and comparability for investors by enabling asset managers to clearly communicate the ESG-related features of their investment products. The goal for this Consultation Paper is to elicit feedback on the proposed scope, structure, and design principles of the Standard. **All comments must be received by 19 October 2020 in order to be considered.**

Providing Feedback

Public commentary on this Consultation Paper will help shape an Exposure Draft, the initial version of the Standard, which is expected to be issued in May 2021. Comments should be provided in this response form. You may address as few or as many of the Consultation Paper’s questions as you wish. Unless otherwise requested, all comments will be posted on the CFA Institute website.

Guidelines for submission

Comments are most useful when they:

- directly address a specific issue or question,
- provide a rationale and support for the opinions expressed, and
- suggest alternative solutions in the event of disagreement.

There is a section for general comments at the end of this response form.

Positive comments in support of a proposal are equally as helpful as those that provide constructive suggestions for improvement.

Requirements for submission

For comments to be considered, please adhere to the following requirements:

- Insert responses to numbered questions in the designated areas of the response form. Please do not remove tags of the type <QUESTION_XX>. Your response to each question must be framed by the two tags corresponding to the question. If you do not wish to respond to a given question, please do not delete it but simply leave the text “ENTER RESPONSE HERE” between the tags.
- Provide all comments in English.
- Assign a unique file name to your response form.
- Submit the response form as a Microsoft Word document.
- Submit the response form to standards@cfainstitute.org by 5:00 PM E.T. on 19 October 2020.

General Information (required)

Respondent: <i>(Please enter your full name if you are submitting as an individual or the name of the organization if you are submitting on behalf of an organization.)</i>	Addenda Capital
Stakeholder Group: <i>(Please select the stakeholder group with which you most closely identify.)</i>	Asset Manager
Region: <i>(If you are submitting as an individual, please select the region in which you live. If you are submitting on behalf of an organization and the organization has a significant presence in multiple regions, please select "Global". Otherwise, please select the region in which the organization has its main office.)</i>	North America
Country: <i>(If you are submitting as an individual, please enter the country in which you live. If you are submitting on behalf of an organization, please enter the country in which the organization has its main office.)</i>	Canada
Confidentiality Preference: <i>(Please select your preference for whether your response is published on the CFA Institute website.)</i>	yes, my response may be published

Consultation Paper Questions

Market Needs

Question 1: Do you agree that a standard is needed to help investors better understand and compare investment products with ESG-related features?

<QUESTION_01>

Yes, a standard is necessary to help investors understand and compare the ESG-related features of investment products. As noted in the consultation paper, PRI Reporting & Assessment and things like regional ESG product labels help investment managers communicate ESG practices to prospects and current clients, but a global standard is needed to make it easier for asset owners to fully understand and compare investment products.

<QUESTION_01>

Terminology

Question 2: Are any of the defined terms ambiguous? If so, how could they be clarified?

<QUESTION_02>

Why is "ESG-related feature" and not just "ESG feature"? Does the "-related" help clarify anything? Why "ESG-Related Need" instead of "ESG-related objective" and again, does the "-related" add anything? We would suggest "ESG feature" and "ESG objective".

<QUESTION_02>

Purpose and Scope

Question 3: In addition to the examples listed in Table 1, which regulations and standards, either in existence or in development, should be considered during the development of the Standard to avoid duplication or conflict and to ensure alignment and referencing if and when applicable?

<QUESTION_03>

Regarding the scope exclusions, it seems inevitable that products will end up being rated using the disclosure that would come from the use of this standard and that those offering products with ESG features might use the CFA Standard in their product disclosure as a tacit endorsement.

Regarding Table 1 – we would just highlight that the new PRI reporting framework will be available in November and highlight the global work of the ISO : <https://www.iso.org/committee/7203746.html>

<QUESTION_03>

Question 4: Do you agree that a disclosure-based approach would be more helpful to achieve the Standard's goals of transparency and comparability than a prescriptive-based approach?

<QUESTION_04>

Yes, the disclosure-based approach is the best way to achieve transparency and comparability. However, this approach will likely not adequately address the real-world impact of ESG features. Disclosure requirements need to be established to enable analysis of real-world impacts. Broadly speaking, this means that the disclosure requirements must enable users to determine if their ESG objectives (needs and wants) are being met – and some of those have real-world impacts.

<QUESTION_04>

Question 5: Do you agree that the Standard should focus only on product-level disclosures and not firm-level disclosures?

<QUESTION_05>

Yes, the standard should be focused on product-level disclosures. This information will be the most useful for investment decision-makers.

<QUESTION_05>

Question 6: Do you agree that an asset manager should be permitted to choose the investment products to which they apply the Standard rather than be required to apply the Standard to all their investment products with ESG-related features?

<QUESTION_06>

Yes, it is fine for asset managers to choose the products to which they will apply the standard. However, what if there was a firm-level compliance option so an asset manager could indicate that disclosure using the standard was available for all products that have ESG features?

<QUESTION_06>

Design Principles

Question 7: Do you agree with the design principles for definitions of ESG-related terms?

<QUESTION_07>

The design principles seem fine – but do they reflect best practice from similar or relevant standards like GIPS? <QUESTION_07>

Question 8: Do you agree with the design principles for disclosure requirements?

<QUESTION_08>

Again, the design principles seem fine – but do they reflect best practice from similar or relevant standards like GIPS?

<QUESTION_08>

Question 9: Should the Standard require that all disclosures be made in a single document? If disclosures were spread across multiple documents, would that pose a challenge for investors to understand and compare investment products?

<QUESTION_09>

Yes, all disclosures for one product should be in a single document for each investment strategy.

<QUESTION_09>

Question 10: Do you agree with the design principle for independent examination?

<QUESTION_10>

Yes, the design principle is sound.

<QUESTION_10>

Question 11: Should independent examination be required, or should it be recommended as best practice but ultimately left to the discretion of the asset manager?

<QUESTION_11>

Independent examination should be voluntary to begin and eventually mandatory. Maybe examination of the design of a product should be required within the first year or two of launch? Maybe both the design and implementation should be examined with the first three or four years? Maybe there can be 'tiers' of adherence to the standards – not reviewed; design reviewed; design and implementation reviewed.

<QUESTION_11>

Question 12: Should the independent examiner (i) examine the disclosures relative to only the design of the investment product, or (ii) examine the disclosures relative to both the design and implementation of the investment product?

<QUESTION_12>

Ideally both design and implementation should be examined but as per above, but maybe there can be 'tiers' of adherence to the standards – not reviewed; design reviewed; design and implementation reviewed.

<QUESTION_12>

Proposal for General Disclosure Requirements

Question 13: Do you agree with the scope of the general disclosure requirements? Are there topics that should be added, deleted, or modified?

<QUESTION_13>

The scope of the general disclosure requirements seem mostly adequate. It is worth cross-checking the list against something like GIPS disclosure requirements for consistency and the information investment consultants gather to populate their databases.

ESG integration and stewardship ESG features should be included in the general disclosure requirements – not just the ESG feature disclosures. These ESG features are increasingly being recognized by investors to be mandatory for all investment strategies and so it follows that any ESG product should have these features and disclose information about them.

<QUESTION_13>

Question 14: Should the disclosure requirements address an investment product’s intention to align with policy goals, such as the UN Sustainable Development Goals (SDGs), and if so, should these requirements be part of general disclosure requirements or feature-specific disclosure requirements?

<QUESTION_14>

Alignment or support of any real-world outcomes (such as the SDGs) should be in the feature-specific disclosure requirements. The disclosures have to help investors decide if a products features will help them meet their ESG objectives.

<QUESTION_14>

Question 15: Should the disclosure requirements include an explanation of whether, and if so how, an investment product considers principal adverse impacts on sustainability factors and where to find additional information, as required by Article 7 of Regulation EU 2019/2088 Sustainable Finance Disclosure Regulation?

<QUESTION_15>

Absolutely, this must be a requirement.

<QUESTION_15>

Proposal for ESG-Related Features and Feature-Specific Disclosure Requirements

Question 16: Do you believe that “ESG Integration” is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_16>

Yes.

<QUESTION_16>

Question 17: If an investment product had Feature (A), and only Feature (A), as defined above, would it be consistent with the CFA institute policy paper “Positions on Environmental, Social, and Governance Integration”? In other words, would it be clear that material ESG-related factors are considered alongside traditional financial factors solely for the purpose of seeking to improve risk-adjusted returns? If not, please suggest how that could be made clearer.

<QUESTION_17>

It should be made very clear to investors that an actively managed, fundamental, product that only has Feature (A) should not be considered an ‘ESG product’. The CFA policy paper says, “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.” So, all actively managed fundamental investment products should have Feature (A) at the bare minimum.

<QUESTION_17>

Question 18: Is Feature (A) clearly defined? If not, please explain how the definition could be made clearer or more precise.

<QUESTION_18>

Yes. Perhaps a few examples of ESG factors to be considered could be added?

<QUESTION_18>

Question 19: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (A)? Are there issues that should be added, deleted, or modified?

<QUESTION_19>

Perhaps examples of ESG integration performed for the product could be added within a year of the inception date?

<QUESTION_19>

Question 20: Do you believe that “ESG-related Exclusions” is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_20>

Yes.

<QUESTION_20>

Question 21: Are “negative screening” and “norms-based screening” similar enough, particularly in the types of issues to be addressed by disclosure requirements, that they can both be covered by Feature (B) ESG-Related Exclusions? If you prefer that they be two separate features, please explain the key differences in function, benefits, and disclosure requirements.

<QUESTION_21>

Yes, “negative screening” and “norms-based screening” are similar enough and they can both be covered by this feature.

<QUESTION_21>

Question 22: Is Feature (B) clearly defined? If not, please suggest how the definition could be made clearer or more precise.

<QUESTION_22>

Feature (B) is clearly defined. One thing that could be considered would be exclusions for risk management purposes.

<QUESTION_22>

Question 23: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (B)? Are there issues that should be added, deleted, or modified?

<QUESTION_23>

The following should be added: A description of how the screening is conducted; What controls are in place to make sure companies that should be excluded do not make their way into the portfolio; The motivation for the screening; and, The source of data used for the screening.

<QUESTION_23>

Question 24: Do you believe that “Best-in-Class” is a clear and appropriate name for this feature? If not, is “Positive ESG Performance Profile” a better name? If you dislike both of these names, please suggest an alternative and explain why it would be a better choice.

<QUESTION_24>

No, “Best-in-Class” is not appropriate. Could this be considered a specific application of Feature (B) “ESG-related Exclusions” where the lower performers are included? Or, how about “ESG-related Inclusions” as it also reflects the motivation for the feature? This category could include strategies that set a hurdle on ESG performance or a relative performance threshold or only include issuers with certain positive ESG attributes so it would not be accurate to call all of these approaches “Best-in Class”.

<QUESTION_24>

Question 25: Do you agree that Feature (C) is distinct enough, particularly in the types of issues to be addressed by disclosure requirements, that it should be separate from other features? If not, please suggest the feature with which it should be combined.

<QUESTION_25>

As noted above, perhaps it could be combined with “ESG-related exclusions” under a general screening feature.

<QUESTION_25>

Question 26: Is Feature (C) clearly defined? If not, please explain how the definition could be made clearer or more precise.

<QUESTION_26>

<QUESTION_26>

Question 27: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (C)? Are there issues that should be added, deleted, or modified?

<QUESTION_27>

The following should be added: A description of how the screening is conducted; What controls are in place to make sure companies that should be excluded do not make their way into the portfolio; and The motivation for the screening.

<QUESTION_27>

Question 28: Do you believe that “ESG-related Thematic Focus” is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_28>

Yes.

<QUESTION_28>

Question 29: Do you agree Feature (D) is distinct enough, particularly in the types of issues to be addressed by disclosure requirements, that it should be separate from other features? If not, please suggest the feature with which it should be combined.

<QUESTION_29>

Yes.

<QUESTION_29>

Question 30: Is Feature (D) clearly defined? If not, please explain how the definition could be made clearer or more precise.

<QUESTION_30>

This point must be made very clearly to investors, “Because there is no intent to influence the direction of these trends, investors should not assume that a product with an ESG-related thematic focus will drive a specific, intentional change in real-world outcomes”.

<QUESTION_30>

Question 31: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (D)? Are there issues that should be added, deleted, or modified?

<QUESTION_31>

Yes but again, this point must be made very clearly to investors, “Because there is no intent to influence the direction of these trends, investors should not assume that a product with an ESG-related thematic focus will drive a specific, intentional change in real-world outcomes”.

<QUESTION_31>

Question 32: Do you believe that “Impact Objective” is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_32>

Yes.

<QUESTION_32>

Question 33: Is Feature (E) clearly defined? If not, please explain how the definition could be made clearer or more precise.

<QUESTION_33>

<QUESTION_33>

Question 34: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (E)? Are there issues that should be added, deleted, or modified?

<QUESTION_34>

It is not necessary that all of the objectives be ranked – but the rank order of impact objectives as a group and investment objectives as a group should be disclosed. Priority ranking of objectives should allow for objectives to be ranked equally because some investors might not prioritize returns or impacts

generated (they may find them equally important). Progress with respect to the stated impact objectives should be required to be disclosed to investors.

<QUESTION_34>

Question 35: Do you believe that “Proxy Voting, Engagement, and Stewardship” is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_35>

No, this feature should be called “Stewardship” because proxy voting and engagement are part of stewardship.

<QUESTION_35>

Question 36: Do you agree that “Proxy Voting, Engagement, and Stewardship” should be a distinct feature? If not, would you prefer that the types of issues to be addressed by disclosure requirements be redistributed to other features or to general disclosures?

<QUESTION_36>

Yes, “Stewardship” should be a distinct feature.

<QUESTION_36>

Question 37: Is Feature (F) clearly defined? If not, please explain how the definition could be made clearer or more precise.

<QUESTION_37>

Generally yes, but it should also contain the notion of ESG-related monitoring.

<QUESTION_37>

Question 38: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (F)? Are there issues that should be added, deleted, or modified?

<QUESTION_38>

There should be additional feature disclosure requirements around whether or not proxy voting is part of stewardship and if engagement is part of stewardship. Proxy voting and engagement are almost like additional ESG features that warrant their own mandatory disclosures. Reviews of stewardship codes, like the UK Stewardship Code should yield more required disclosure ideas.

<QUESTION_38>

Question 39: Do the six features described fully cover the spectrum of ESG-related features currently offered in the marketplace?

<QUESTION_39>

No. Please add “Regulatory Feedback and Public Policy Advocacy” as a feature. This is an ESG feature that clients are increasingly expecting of asset managers.

Also, what about portfolio level constraints other than security level screening? Something like "ESG-related portfolio constraints" should be added to address something like setting a target of having the weighted average carbon intensity of a product that is 20% lower than the benchmark intensity.

<QUESTION_39>

Proposal for Classification of ESG-Related Features According to ESG-Related Needs

Question 40: Does this list of ESG-related needs represent the spectrum of investors’ ESG-related needs?

<QUESTION_40>

This is a crucial question that should be driving the process – is this list exhaustive and mutually exclusive? At a minimum please add need another: “I want to use my rights and position of ownership to influence issuers’ or companies’ activities or behaviors in a manner consistent with my personal beliefs or the mission, principles, or beliefs of my organization.”

<QUESTION_40>

Question 41: Are these five ESG-related needs clearly differentiated and mutually exclusive?

<QUESTION_41>

As per question 40, a new need should be added to Table 2. They don’t quite seem to itemize all the different ESG needs and wants.

<QUESTION_41>

Question 42: Do you agree with the classification of ESG-related features according to ESG-related needs, as shown in Table 3? If not, how might it be improved?

<QUESTION_42>

It could be improved by adding Stewardship for need #2 and need #6 (the new one we suggested in question 40).

<QUESTION_42>

Users and Benefits

Question 43: Do you agree with the description of user benefits? Are there any benefits that should be added or deleted?

<QUESTION_43>

Yes.

<QUESTION_43>

Question 44: Do you agree with the terms used to define the users of the Standard? Are there any terms we should include, or avoid using?

<QUESTION_44>

Yes.

<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

Asset managers using this disclosure framework should be required to give prospective and current clients the prepared disclosure on a regular basis, with the option to make it public.

You could test this disclosure framework out by looking at existing products in the market to see how their disclosure would work.

There should be advertising rules along with the framework, such as: you can't advertise ESG-related features for which you don't provide disclosure.

<GENERAL_COMMENTS>