

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> | Bank of Finland |
| Stakeholder Group: <i>(Please select the stakeholder group with which you most closely identify.)</i> | Investor |
| 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> | Europe |
| 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> | Finland |
| 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>

There is a need for market standards on ESG-related features. When formulating a new standard it should utilize as much as possible existing terminology and frameworks.

<QUESTION_01>

Terminology

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

<QUESTION_02>

ESG MATTERS relate to what the PRI refers to as ESG ISSUES maybe that would be a better term to be used to avoid confusion.

<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>

Green Bond Principles; can be accessed via

<https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

The Nordic Public Sector Issuers Position Paper on Green Bonds Impact; can be accessed via

https://www.kuntarahoitus.fi/app/uploads/sites/2/2020/02/NPSI_Position_paper_2020_final.pdf

<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>

Disclosure-level approach is preferred over prescriptive-based approach as different asset managers have different investment strategies, different ESG strategies and approaches and tools used. With disclosure based approach we allow different methods and do not try to fit all in "one-size-fits-all".

<QUESTION_04>

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

<QUESTION_05>

Standard should focus only on product level as asset managers have different products on offer. If the Standard is based on firm-level disclosure an investor may end up investing in a product that doesn't fulfil their criteria even though the asset manager as an organization would classify at a good ESG level. DD on asset managers and on the product need to be conducted despite the existence of the Standard.]

<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>

Ideally the Standard should be applied to all products to drive forward the idea that ESG-issues have financial relevance and these should be taken into account in investments. If an asset manager has a product with no ESG-related features than that should be disclosed.

<QUESTION_06>

Design Principles

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

<QUESTION_07>

The design principles for definitions seem clear. The emphasis should be on alignment with widely existing terminology within the market (main reference would be the PRI).

<QUESTION_07>

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

<QUESTION_08>

The design principles for disclosure seem clear. The emphasis on the design principles should be on materiality, especially on financial materiality both in shorter or longer term (depending on the product also).

<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>

The disclosure needs to be in a single document. Obviously texts can be utilized in various formats in marketing materials, websites, presentations but the investor should be able to get the relevant disclosure from one document.

<QUESTION_09>

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

<QUESTION_10>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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 general disclosure requirements should have a short commentary on overall ESG-objectives, strategies alongside the description of the investment mandate, objective, or strategy. The details will

be then disclosed in the feature related section. The asset managers' dedicated ESG resources, capabilities and responsibilities related specifically to the product in question should also be disclosed in the general disclosure section.

The "Whether the investment product has been independently examined" should include both design and implementation aspects.

<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>

If the product has clearly stated goals/ targets related to policy goals overarching its investment strategy then these should be mentioned in the general disclosure section. If the alignment or impact of policy goals are only measured as a backward looking reporting item then it should be part of the feature-specific disclosure requirement.

<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>

ENTER RESPONSE HERE

<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, it is clear and appropriate

<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>

Yes, although you may get additional benefits from ESG integration but they are rarely the main factor.

<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>

ENTER RESPONSE HERE

<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>

How the feature is implemented and who is responsible for implementing it should be added as disclosure requirements.

<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>

ESG-related Exclusions is clear and appropriate but there should be a distinction between values based and value based exclusions. It is possible to use both exclusions methods within the portfolio for example excluding certain sectors (e.g. tobacco and fossil fuels) based on the notion that one does not wish to financially gain from these sectors or finance these sectors would be classified as ethical exclusion/ values based exclusion. Whereas tobacco and fossil fuels can be excluded based on a longer term view that these sectors are not financially attractive -> financial exclusion/ value based exclusion.

Negative screening could be an alternative for this feature as it would then allow the feature B to be labelled as positive screening (both best-in-class and positive tilts would be under the same headline). Although these are not without their own issues when defining the meaning.

<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>

These two fall well within the same overarching category. The number of features within the Standard should be kept at a reasonable level so it does not appear to be overly complex and difficult to fulfil the criteria.

<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>

ENTER RESPONSE HERE

<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>

How the feature is implemented and who is responsible for implementing it should be added as disclosure requirements.

Detailed definitions on sector exclusions (zero tolerance or threshold levels, manufacturing/ production or is distribution/ sales also included, are nuclear weapons included in controversial weapons screens etc.)

<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>

Best-in-class is slightly problematic as it tends to refer to a strategy that only invests in the top performers. A positively tilted strategy would not therefore fit this description. If positively tilted should be part of this feature and not part of the earlier feature (positive screening amongst negative screening) then the name should be changed.

Positive ESG Performance Profile is better but not well known, so some education on the term is required. "(Positive) ESG Enhancement" as it would tie the term with increasing positives using ESG? Positive screening allows for both best-in-class and tilted strategies to be under the same heading.

<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>

If the number of features need to be cut, then the best-in-class (as opposed to tilts) could be added to ESG exclusions as excluding the names not fulfilling the pre-determined criteria. The tilted strategies should be added with ESG-Related Thematic Focus, although not all tilts strongly follow a specific thematic focus.

With a changed name this could be its own separate 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>

ENTER RESPONSE HERE

<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>

How the feature is implemented and who is responsible for implementing it should be added as disclosure requirements.

<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>

ENTER RESPONSE HERE

<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>

<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>

It is clear enough although emphasis on disclosure should be on the definition of the theme(s), how it is interpreted in asset selection, how much can be invested outside the theme if any etc.

<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>

How the feature is implemented and who is responsible for implementing it should be added as disclosure requirements.

How the thematic focus may be changed over time? How much can be invested outside the theme at any time if any?

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

How the feature is implemented and who is responsible for implementing it should be added as disclosure requirements. Impact measuring is difficult and sometimes leaves a lot for interpretation thus emphasis should be on measuring methodology and capabilities. Overstating positive impacts and understating negative impacts needs to be discouraged so any third party verification/ assurance mechanisms should be disclosed.

<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>

ENTER RESPONSE HERE

<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>

If the number of features need to be cut, then this could be added to the ESG integration feature. The way an asset manager exercises its ownership rights even with passive products is an important feature which warrants this to be a separate 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>

There are many definitions on engagement so it is important that engagement gets defined clearly. What type of company meetings can be included as an engagement (simple letter writing, quarterly earnings meetings, meetings with engagement agenda, conference calls, small group meetings, 1-on-

1s...)? What is the difference between engagement and a company meeting? For a meeting to be part of engagement should there be an engagement agenda with preferred next steps, outcomes etc. The Standard should attempt to address these issues too. In our view an engagement should have a written agenda (doesn't have to be public) with identified topics to be discussed, next steps and an outcome. Regular calls discussing financial statements should not be counted as engagement unless the topics identified in the engagement agenda are also discussed.

<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>

How the feature is implemented and who is responsible for implementing it should be added as disclosure requirements.

<QUESTION_38>

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

<QUESTION_39>

Yes they do.

<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>

The second ESG-related need also includes "I don't want to financially benefit from activities that violate my personal beliefs....". Maybe the need could be "I don't want to violate and/or financially benefit from activities that violate my personal beliefs...."

<QUESTION_40>

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

<QUESTION_41>

They are fairly differentiated and as stated in the text they are not mutually exclusive as an asset manager/investor may have several needs. These needs will be catered for in various ways in different or same portfolio. The last two needs could benefit from more differentiation, first of these being

thematic and second impact. Maybe use those words in the ESG-related need -column? The motivation explains the difference better.

<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>

These are all in addition to the existing dots:

Need (1) should have feature (B) as financially based exclusions cater for this need.

Need (2) should have feature (F) if active ownership is used to create change.

Need (3) should have feature (A) as through ESG integration you gain valuable information related to the need.

Need (4) should have features (C) and (F)

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

ENTER RESPONSE HERE

<GENERAL_COMMENTS>