

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>	BlackRock, Inc.
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>	Global
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>	United States
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>

BlackRock, Inc. (together with its affiliates, “**BlackRock**”) is pleased to be responding to the CFA Institute’s “Consultation Paper on the Development of the CFA Institute ESG Disclosure Standards for Investment Products. BlackRock believes that the work being done by industry participants of various types to coalesce around a standard ESG product disclosure framework, is an essential step for improving the sustainable finance ecosystem, and we wrote on this topic in our January 2020 *ViewPoint: Towards a Common Language for Sustainable Investing*. A robust and widely accepted disclosure framework is critical as investor interest in sustainable investing increases and concerns about “greenwashing” – the practice by which products’ actual sustainability characteristics are confusing or outright misleading – are also on the rise, increasing the need for comparable and reliable data across markets and industries. Moreover, in the absence of harmonized official sector requirements, industry led disclosure standards can play an important role in helping investors navigate the range of sustainable investment options and make informed decisions to suit their investment objectives. As CFA Institute takes its ESG Standard forward, we encourage the CFA Institute to carefully monitor the changing regulatory landscape globally for sustainability-related investment product disclosure, as any final standard will need to align and avoid duplication with regulatory standards (e.g., those of the French Autorité des marchés financiers’ (AMF) and the EU Sustainable Finance Disclosure Regulation (SFDR)).

<QUESTION_01>

Terminology

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

<QUESTION_02>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<QUESTION_04>

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

<QUESTION_05>

ENTER RESPONSE HERE]

<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>

ENTER RESPONSE HERE

<QUESTION_06>

Design Principles

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

<QUESTION_07>

ENTER RESPONSE HERE

<QUESTION_07>

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

<QUESTION_08>

ENTER RESPONSE HERE

<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>

We believe that the Standard should not require that all disclosures be made in a single document in order to avoid duplication with emerging regulatory standards that may overlap with the CFA standard. Firms should be left to determine how to implement the Standard as it relates to their product offerings. Many firms, such as BlackRock, have global platforms and operate in numerous regions where regional regulatory requirements must be adhered to. Firms are best positioned to determine the format and delivery mechanism of any disclosures. At a minimum, the Standard should provide flexibility to provide disclosures across multiple documents. Moreover, firms should be able to leverage existing disclosures made in other regulatory disclosure documents, such as a prospectus or Key Investor Information Document (KIID) in meeting the requirements of the Standard. Finally, BlackRock believes that firms should be able to use hyperlinks and other digital technology to disclose certain information where it is provided in an electronic format, such as a website.

<QUESTION_09>

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

<QUESTION_10>

If the Standard includes a provision for an independent, third-party examination, BlackRock believes that it should be on a platform or firm level. A product-by-product examination would not provide a meaningful benefit for investors that are evaluating products offered by large firms that sell ESG strategies in multiple product wrappers. Moreover, to the extent that some disclosures, such as those related to ESG integration, apply on a platform or firm level, firms should be able to make that disclosure on a platform or firm level rather than repeating the same disclosure for every single product offered.

Please also refer to our answer for Question 11.

<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>

BlackRock believes that any independent examination should be optional and left to the discretion of the asset manager given the nascent state of the sustainability disclosures. Firms should be given the opportunity to elect to have an independent examination after evaluating whether it would have a meaningful benefit to their investors after considering the costs associated with an independent examination. If an examination of compliance with the Standard is required (as opposed to recommended or optional), BlackRock believes that such an examination could be completed by an

organization's second- or third-line defense functions as part of a risk-based review cycle rather than an outside independent examiner. While BlackRock cannot opine on other firms' internal audit departments, we believe it is a fair assumption that most firms have sophisticated internal audit departments that would be well positioned to review compliance with the Standard on an as-needed basis.

Moreover, BlackRock does not believe that CFA Institute, in its position as an industry association, should mandate an examination of the Standard. Any formal examinations that evaluate whether a firm is meeting its disclosure obligations are best left to local regulators, which are in the best position to monitor and enforce applicable rules and regulations.

<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>

If the Standard includes a provision for an examination, whether that be by an internal group or external examiner, BlackRock believes that the examiner should review the disclosures relative to only the design of the investment product. Requiring an examination of product implementation would be a subjective exercise that could lead to inconsistent results within the industry. BlackRock notes that an independent examination process similar to that of the GIPS Standards would be sufficient to evaluate compliance. Moreover, various local regulations require firms to manage a fund in accordance with its investment objectives as stated in the fund's offering documents. Causing an examiner to evaluate the implementation of ESG products effectively allows for second guessing of the portfolio manager's decision making, which we assume is not the CFA Institute's intent.

<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>

ENTER RESPONSE HERE

<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>

It is our view that disclosure around alignment with the SDGs is already a practice broadly adopted in the industry, and many financial institutions already disclose the alignment with SDGs in products where it is appropriate to do so. It is our view that certain products, such as impact-oriented products, are more suited to SDG disclosure. Considering this is a global framework based on indicators, additional disclosure requirements could be overly proscriptive and create an unnecessary burden on products where SDG disclosure is less relevant versus other reporting frameworks.

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

We do not believe that either “Best in Class” or “Positive ESG Performance Profile” is a clear and appropriate name for Feature C. BlackRock has found that regulators often object to using such terms in marketing materials because they imply a certain level of investment performance that cannot be substantiated.

At BlackRock, we use the term “ESG Broad” as the equivalent name for this Feature. We define “ESG Broad” as products that invest in securities based on overall ESG performance. This includes both securities with the best ESG ratings and securities whose ESG rating has improved over time.

BlackRock agrees with the points made in the notes section of the Feature C description:

“Describing a product as ‘best-in-class’ may lead to confusion if the product does not clearly state which ‘class’ is being referenced or what type of criteria is used to constitute ‘best.’ The term ‘positive screening’ may lead to confusion because the term could be interpreted as the exact same thing as ‘negative screening,’ with the only difference being that the criteria are stated in inclusionary terms instead of exclusionary terms.”

Hence, we suggest the use of a different name.

<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>

Yes, BlackRock agrees that Feature C is distinct enough to be categorized separately. See our example product types in response to Question 24.

<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>

See our response to Question 24.

The main item we believe is missing from the definition is the notion that strategies that invest in securities with ESG scores that have improved over time should also be considered as part of Feature C.

<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>

We recommend that the only information needed for disclosure should be:

1. description of how ESG scores or ratings are used to determine investment;
2. sources of ESG data used in portfolio analysis; and
3. benchmarks for ESG metrics.

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<QUESTION_38>

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

<QUESTION_39>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<QUESTION_40>

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

<QUESTION_41>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>