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.

<u>Guidelines for submission</u>

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.

<u>Requirements for submission</u>

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: *(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.)*	CFA Society of Chile
Stakeholder Group: *(Please select the stakeholder group with which you most closely identify.)*	Investor
Region: *(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.)*	Latin America
Country: *(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.)*	Chile
Confidentiality Preference: *(Please select your preference for whether your response is published on the CFA Institute website.)*	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>

Agree. ESG is a loosely-defined term in asset management that encompases many different objectives and is often applied on ad-hoc basis. There is no consistency in the use of any of the terms it is supposed to address and therefore is subject to interpretation by the investor. Moreover, many investors are spending valuable time and resources just to make sure their investments comply with their stated intentions or guidelines related to ESG concepts.

<QUESTION_01>

Terminology

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

<QUESTION_02>

The *ESG Matters* term is rather broad and therefore subject to various interpretations. E.g. How do you define *affairs, situations* or *topics* related to the *society* element of ESG? How broad of a definition of society do we use? Does it involve affecting issues such as *justice* or maybe *fairness*? Or is it only enclosed to what the law says? The reference to society seems too broad.

Also the *ESG-Related Need* seems a bit open to interpretation, while there are many needs and benefits on which investors and/or managers can agree (e.g. not investing in illegal or polluting industries), there are other that may be more investor specific, or the degree to which something is an accepted investment might be biased by local preferences and laws. This ambiguity relates to the *ESG Matters* ambiguity expressed earlier.

<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>

We could mention the MSCI Principles for Sustainable Investments, which has a similar approach to the one presented here (i.e. references ESG Integration and Impact Investing), which is more of a framework to include ESG considerations into the investment process more than anything.

<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>

Agree. At this stage – that is when setting the standard, we think is best to classify the products ex-post rather than setting ex-ante conditions for products to qualify, that could make asset managers avoid the recommendations altogether based on the cost and effort to adapt current system and practices to the standard. In that way, asset managers can see how they currently rank on ESG matters and adapt over time. Down the line, once adherence to the standard is greater the CFA Institute can move to a prescriptive standard.

<QUESTION_04>

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

<QUESTION_05>

Agree. At this stage is wiser to start with the products, the CFA Institute can later promote a firm level assessment or qualification.

<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>

We think there should be incentives for asset managers to make disclosures on all products with ESG-related features. Allowing asset managers to choose on which products they get to apply the standard may be better at this stage in order to promote adoption of the standard, however we feel it could serve as a tool to promote that an asset manager is complying or doing well in ESG-related matters when in fact is only doing so in selected products.

<QUESTION_06>

Design Principles

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

<QUESTION_07>

Yes. If possible we would try to make the definitions as universally understandable and applicable as possible, without making them too vague and ambiguous that end up fitting all criteria but are applicable to none.

<QUESTION_07>

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

<QUESTION_08>

Yes, however if we make the requirements too general or too vague, we will lose the ability to compare disclosures in between funds/products.

<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 would make the disclosures fit existing documentation (bylaws, factsheets, annual reports, etc.). While it would be great to have a dedicated ESG disclosure report, we feel pushing for a special ESG disclosures' document we would be putting roadblocks to the adoption of the standard and we are not sure how viable (and how attractive) is to produce and distribute that document from a commercial standpoint

<QUESTION_09>

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

<QUESTION_10>

In principle, yes. However, we would be cautious in not turning the independent examination in a kind of certification. On the other hand, if you could fit it within your annual audits, that could allow for an easier adoption of the standards.

<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>

We would start with self disclosure, after all, one of the principles of the CFA Institute is the integrity so we should trust AMs representing adequately its features and capabilities. Definitively independent examination would make for a stronger case of compliance, so maybe further down the road we can introduce a requirement for independent examination.

<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>

Design and implementation. If we are going for an examination, we should check AMs are actually following through with their promises

<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>

We agree with the scope of the proposed disclosure requirements, but we would add a disclosure on how the product intends to meet the desired ESG-related or sustainable standards it aims to meet. Maybe that section can be added to the annual reports or part of a separate, dedicated ESG compliance report

<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>

We would disclose all the intended ESG-related standards and other sustainable goals the product intends to meet and how it intends to meet them. After all, any AM would be comfortable disclosing they meet several different criteria for ESG investments. We think is best, if we want to make the standard global and accepted and recognized, to align disclosure along feature-specific lines

<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>

Yes, we feel is important not only disclose compliance with the proposed standards, but also disclosure of potential negative effects being caused directly or indirectly by the product

<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, "ESG Integration" is clearly defined.

<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, it would be clear.

<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, Feature A is clearly defined.

<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>

In general terms we agree regarding the issues to be addressed by disclosure requirements, however we would value the addition of a disclosure requirement about the origin of the sources of ESG data (in house or external). Performance attribution analysis to assess material ESG related factors is deemed to be too theorical for this stage.

<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>

In our opinion, further explanation is needed in this feature.

Specifically, Funds with feature A could apply filters of minimum score or rating in one ESG dimension to make a stock part of their eligible investment universe (i.e.: Companies out of the lowest quintile or decile in terms of ESG score)). These Funds are not looking to apply a negative screening per se to their investment process. This difference is not clear enough in the document.

Other relevant point is a contradiction between the Notes of this feature, where is stated that the criteria used to exclude issuers, securities or companies from the investment product should not be explicitly stated, but in Disclosure Requirements section is mandatory to describe each ESG related exclusion criteria. In our opinion, ESG related exclusion criteria should be stated.

<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>

We think that depends on the size of the restriction of the investable universe, a small screening seems out of the scope of this feature, if the norms based or negative screening have a material impact in the investable universe, they are similar enough to be covered by Feature B

<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>

Besides the comments included above, we think that Feature B is clearly defined.

<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>

We would like to suggest adding to this section a further disclosure regarding the time frame and investments constraints to be implemented when a company is part of the portfolio and fails to pass the ESG related exclusion criteria.

<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 suggest an "ESG Relative Score" – We believe that both "Best-in-Class" and "Positive ESG Performance Profile" can mislead given the nature of this feature. This feature would allow investing in a wide array of products/companies as long as they perform relatively better on just one (possibly very specific) ESG-related metric. While this is useful to tailor investments to specific needs and objectives, we believe that "ESG Relative Score" more accurately describes the nature of the feature.

<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>

We agree that Feature (C) is distinct enough.

<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>

We believe that Feature (C) is clearly defined. However, we believe that it could be beneficial to introduce a certain degree of standardization of metrics or how they are produced in order to facilitate understanding and comparability of this feature.

<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 believe that additional disclosure regarding relevant ESG matters that are not covered for a specific product should be included. Almost any company in the world could be "best-in-class" or relatively better with regard to some very specific ESG-metric. Therefore we believe that when advertising this feature it should be important to note which ESG aspects or themes are not being considered for the metric.

<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>

We believe that "ESG-related Thematic Focus" is a clear and appropriate name.

<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>

We agree that Feature (D) is distinct enough.

<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>

We believe that the feature in itself is clearly defined. However, there is room for digression on what would constitute an ESG-related thematic focus and what would not. We believe that this can be best addressed with the disclosure requirements (See question 31).

<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>

We believe that criteria or consensus on what constitutes an ESG-related thematic focus and an explanation thereof should be added as a disclosure requirement. Given that there can be differing views on what would constitute an ESG-related thematic focus this would help to ensure that investors' needs are aligned with the investment product.

<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, Impact Objective" is an appropriate name

<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>

Yes, Feature E is clearly defined.

<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>

Yes, we agree with the disclosure requirements

<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>

Yes, Proxy Voting, Engagement, and Stewardship is an appropriate name

<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, Proxy Voting, Engagement, and Stewardship is 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>

Yes, Feature F is clearly defined.

<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>

Yes, we agree with the disclosure's requirements. We believe it should also be disclosed if the policies mentioned in the disclosures only apply to the product or are policies of the parent company or asset manager.

<QUESTION_38>

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

<QUESTION_39>

Mostly. There are products that try to provide an optimized, or limited, version of a "regular" product. It is not clear to us where to classify those. For example, a fund that offers a low carbon footprint version of a regular index, in that case, the closest description would probably a Best-In-Class feature, but it is not necessarily a Best in Class approach, in the sense that it is not necessarily picking the best companies among peers, but it might just be under/over weighting industries with worse/better carbon footprint. Another example, you could have a fund that puts a limit where it cannot invest more than 20% of the fund in companies involved in tobacco production. In that case, is not an exclusion, because you will have the tobacco producing companies in the fund, and it is not a Best-in-Class approach either.

<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>

Yes

<QUESTION_40>

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

<QUESTION_41>

Mostly, however we could see some overlaps in:

- (3) and (5) The concept of wanting "more positive effects, on the people and things I care about and the world in which I live" is probably very similar in motivation to wanting to invest in a specific solution to an environmental or social goal. For example, caring about nature, probably fits in (3) and (5)
- (2) and (3), since both are related to wanting to adhere to personal beliefs, in the case of (2) it is stated as not wanting to violate my beliefs, and (3) wanting the investments to not have a negative effect on things I care about. In both cases you could argue the intention is to not violate your principles.

<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>

Yes

<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>

We would add:

\- Regulators: clearer reporting standards for products should make it easier for regulators to review products and make sure the products offered in the market are not deceitful or misleading for the public. Also, having clearer reporting standards for products could in turn enable regulators to require specific metrics about ESG to institutional investors. For instance, in the case of a pension fund plan, the regulator could ask the pension plan managers what percentage of the funds are invested in funds that declare to have ESG integration.

\- Academic Research: very similar to the benefit for database providers, having better data should enable better research into the benefits/costs of ESG related factors on investment performance

<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>

Overall, the approach of the standard is to give a framework for asset managers to report what they do. However, we suggest that there should be some minimum requirement to disclose what they are not doing.

The reason for this, is that currently it is hard in some cases to compare between products, precisely because the information managers provide is designed to show mostly the things the product gets right. However, as an investor, you would usually like to know if there is another ESG aspect that is being significantly ignored or maybe you are even taking on another ESG risk. As an example, let's say you have a low carbon equities fund, following the standards, it would report it is doing a best in class approach, favoring companies with lower carbon emissions. Most likely, an investor would still like to know, if by following this strategy, the fund puts a significant overweight in companies with poor governance practices. There should be a requirement to disclose at least, if there was any consideration given to those aspects. For instance, it could be required that funds report at least what is the fund's approach on each: Environmental Impact, Social Impact, Governance Matters. Examples of possible answers could be "we at least assure that the average governance score for our fund, as rated by 3rd party provider X, remains broadly in line with the index" or as simple as "it is not explicitly addressed". Either answer would be helpful in giving the investor some guidance regarding the asset manager's approach.

We consider there are benefits of having these minimum disclosures requirements. They would provide valuable information to make products more comparable, and also, it will probably put the right incentives in the market for managers to offer more comprehensive products.

<GENERAL_COMMENTS>