

**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](mailto:standards@cfainstitute.org) by 5:00 PM E.T. on 19 October 2020.

## General Information (required)

<b>Respondent:</b> <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>	Gabriel Houette, Lenny Kessler, Romain Devai and Bernard Coupez from CFA society France
<b>Stakeholder Group:</b>  <i>(Please select the stakeholder group with which you most closely identify.)</i>	Choose an item.
<b>Region:</b> <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
<b>Country:</b> <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>	FRANCE
<b>Confidentiality Preference:</b> <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.

<QUESTION\_01>

### **Terminology**

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

<QUESTION\_02>

ESG-Related Feature: bringing in the notion of “component or capability” may bring ambiguity and problems of definition. What is a component? What is a capability?

Maybe the following would be clearer:

1/ An ESG-related factor or ESG-related need intentionally incorporated into the design of an investment product.

2/ Another definition could insist on the approach of investing: ESG Risk Factor

<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>

The **EU Action Plan**, defined by the European Commission, should be mentioned as it is the framework that links all EU regulations mentioned in table 1. This is important to ensure alignment and consistency between all the papers included in the **EU action plan**. In the EU local ecosystem, we have to keep in mind how this will fit into the European plan. When we talk about regulation it is mandatory for everyone.

<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. It is also much easier to adopt depending on one's geographical area and existing regulations.

<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. We believe firm-level disclosures are an important element to limit greenwashing or misleading presentations.

Similar investment products can be grouped in "composites" by analogy with what is done in the GIPS. But we also need to make sure all products are covered. For identifying the size of products covered by the ESG Standards, we suggest the disclosure of the percentage of AUMs covered by the ESG Disclosure Standards. What must be avoided is that someone can use the standard disclosure on a product in its range and say: "look I'm compliant, I used standard disclosures so I'm ESG compliant", we consider that as a principle to apply to each fund. It is each fund that applies the principles. We would like to avoid any misleading sale.

We consider that if you have ESG funds you cannot choose if one part meets the standards and the others do not. A fund manager has to be clear: he has to be transparent about the fact that he is not ESG on some funds, for avoiding the green washing of the range.

<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>

No. Similarly to the previous question, all investment products should be covered. We can follow the same logic as that of the GIPS (including the idea of grouping products into composites).

An asset manager should act on a homogeneous manner and avoid window dressing.

<QUESTION\_06>

## **Design Principles**

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

<QUESTION\_07>

Yes. This is perfect and very useful!

<QUESTION\_07>

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

<QUESTION\_08>

Yes.

However, we would add about the format of the disclosure that it should be searchable to ease comparison by investors.

We also agree with having recommended disclosures, with analogy with the opt-in indicators of the European SFDR (Regulation EU 2019/2088 Sustainable Finance Disclosure Regulation). We suggest that we could rename “recommended” by “opt-in” to bring more coherence between the Standards and the Regulation.

<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>

Again, we could make things easier for investors and asset managers by staying coherent with what the European SFDR requires: information of a permanent or structural nature in the pre-contractual documents (e.g. the prospectus), information that is naturally evolving on the website (e.g. a specific method to evaluate or follow an ESG-related feature) and specific indicators in the periodic reporting documents.

We also mention that these European upcoming requirements make sense and should not present too much of a burden for an asset manager.

Regarding retail investors, we confirm that it is a good point to have everything on one document with an easy comparability (see the initial version discussed for formatting the KIIDs for UCITS).

<QUESTION\_09>

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

<QUESTION\_10>

Yes.

<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>

On the principle an independent examination should be required after the second year of activity for any fund.

But we need to keep in mind the constraints faced by the fund manager at the beginning of the start of a fund. Like some rules included in AIFMD, we could decide that during the first year of the fund the requirement is not compulsory. In this case, “Comply or Explain” would be a good middle ground here: if left to the discretion of the asset manager, it should be clearly stated when independent examination has not been performed and give a reason why.

<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>

Both, design and implementation.

We have risk procedures in the industry that have proven their worth and are well screwed up. We must not reinvent the wheel. We have good processes to reuse. It will not be the same people, but they will have to be trained. An independent audit of management is mandatory for us.

However, both examinations need not be done by the same person or entity. Implementation could be reviewed by risk controllers (internal or external) as long as they have a sufficient level of independence vis-à-vis the asset managers (as required in most jurisdiction).

<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>

Yes. Investment product must be independently examined, it is not an option.

<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>

Yes, be part of general disclosure requirements.

This should be optional and feature specific. SDGs follow a different logic, global by design, macro-level, measured as an impact. Although investment products can contribute to the SDGs, their scope is more focused by design (limited to an investment universe and ESG-related needs), micro-level of the companies invested in, measured in terms of outputs and outcomes rather than in terms of societal or environmental impacts.

We agree, but the issue deserves to be reformulated. We need to discuss this if we are aligned with a policy goal. Example: in a fund, we can possibly measure with all the necessary caution of the term the output we have, that is, the number of jobs we have created and measure our impact in terms of policy (in this case,, it is the macroeconomic unemployment rate) it is too complex we cannot do. We just have to be very careful in the way we draw this and explain that. Do not make it seem that we have had a greater role than that which it is for a fund in his environment, that is, the drop of water in the ocean if we speak of the job created in this example.

<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, definitely!

Awareness of adverse impacts is crucial for end investors to evaluate if the trade-offs made are aligned with their ESG-related needs.

<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>

Here, we face the problem of materiality. We need to make sure most material ESG-related factors are addressed if we are to limit greenwashing. For example, evaluating governance is part of a normal due diligence process, but it is not sufficient to claim “ESG Integration”. A materiality matrix could be used. Either an existing one or one designed (and maintained) by the CFA Institute.

Materiality and double materiality are key aspects, especially since the later is being incorporated into European regulations (and in the proposed review of the Global Reporting Initiative (GRI) Universal Standards). We cannot avoid the trans-Atlantic debate about materiality and double materiality as defined and promoted by European public institutions.

<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>

The definition is clear, but this needs to be completed with materiality (see Question 17). We propose a risk map that define non-financial risk factors that would be deemed relevant when making investment decisions. This imply a holistic approach.

<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>

Principal adverse impacts should be included (see Question 15) and a risk mapping should be added. We suggest that CFA institute could publish a proposal on this field.

The future platform that will be set up in Europe will aim to update this matrix of materiality. This will be the one it will require in terms of reporting. One could ask the CFA to distinguish geographical areas by saying that the European fund it must be complying with such a matrix of materiality, the US fund with its own.

<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, If the distinction between exclusions and limitations is made clear in the disclosure requirements.

<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, provided that the definition of exclusions is very clear.

Norms based screening is based on generally accepted societal standards which (standards) must be defined. Furthermore, discrepancies of “accepted societal” could be seen depending on geographic zone. This approach is more subjective than the negative screening which is based on the nature of the business which is objective.

The "norms-based screening" tickled us. It is the door open to the window dressing process. The way the consultation defines it is based on "generally accepted societal standards". "Generally accepted": it is not imposed, potentially recognized. It is not clear. For us, it has to be clearly framed. Example: if a rule of the financial city says that up to 30% of turnover is accepted a company listed in oil. Above that poses a concern. So we're going to set 30% because it's a more or less accepted in the city as a standard. This is not satisfactory because the protection of end investors (asset owner or individual) does not find its account. The definition of exclusion is the key. We believe

that the fund must give its definition to allow the final investor to understand what the negative rating is.

<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>

Yes.

We must not only frame what we exclude but also what we include in it. The intention is good but the text leaves a lot room for the window dressing. We think we need to be more restrictive. If the scope is not framed or square, good principles may not be of much use and that in whole will not help either the CFA in its approach or the final investor who is not protected. What would be dangerous would be a fund that says it is compliant with standard CFA when in reality the content of its concrete application is insufficient or even misleading and does not guarantee anything at all.

<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 description of each ESG-related exclusion criteria should include the defined limitations if exclusions are not absolute.

<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 now a widely accepted term among professionals, but it may be misleading for individual/non-professional investors. The naming used by some as “Positive/Best-in Class screening” is better but “screening” tends to imply a binary

outcome. It is also not clear how a non-professional investor may interpret “Positive” in this context.

In the view of this, “ESG Performance Profile Ranking” and “Positive ESG Performance Profile” might indeed be a more objective and better name. The question stays: will we create more confusion with a new name, or can we impose a new 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, absolutely!

<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>

Definition is clear.

<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>

Materiality of each chosen metric could be included. Thereof, we could also imagine an investment product using different metrics for different sectors. We need also to develop a clear scoring on other ESG features that are not assessed, mainly for other classes.

<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>

Yes.

It is important to keep the distinction that such products only seek to benefit from a trend, not influence it (simple versus double materiality). This also helps keep the distinction with “Impact Objective” clear.

<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. Description of min threshold a company must reach to be eligible in the portfolio selection.

Example: TOTAL is running eolienne plants, could it be included in a portfolio construction using a thematic wind energy?

<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>

Yes. Must be 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, with these comments:

1/ "A priority ranking of all objectives, inclusive of both impact objectives and investment objectives" could be clearer and mention "impact objectives and financial objectives".

2/ "Methods used to assess, measure, and monitor performance against the stated impact objectives": impact is often very difficult or impossible to measure and costs can get out of hand.

One has to distinguish outcomes and impacts. Outcomes are the result of the actions taken by the investor and the investee; they should be measured. Impacts are the evolution situation on the ground or with the example in the consultation paper, the availability of capital to underserved communities. The availability can have improved or worsened independently of the investor's action. It is also usually complex to measure (although this example would be fairly easy). Hence, an assessment of the impact should be sufficient and relying on an external assessment should be possible when such assessment is already done by an official body.

The impact of the investor's money invested and that of the investor's actions (or "Proxy Voting, Engagement, and Stewardship") should also be distinguished when possible. This disclosure should only be recommended as it is hard to assess in practice.

3/ "Methods by which the product intends to achieve the stated impact objectives": The notion of Theory of Change is crucial for impact investors. It should be clearly stated.

We recommend an external certification to qualify the impact.

<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.

<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, it should be a distinct feature but included in all other “ESG features”. Actively influencing behaviour of companies can be just as powerful, if not more so, than ESG-related Exclusions.

Also, in most of today’s rating and label systems, such an active investor is often disadvantaged for holding less good companies and trying to improve their ESG metrics. This is the opportunity to clarify why that is so and disclose the improvement in ESG metrics.

<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.

<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. An issue that should be added is how the performance of engagement will be measured.

<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. I would almost have the opposite worry: could an investment product that only cares about financial metrics and standard governance issues be able to disclose ESG-

features (A), (B) and (F)? There is a risk of misleading final investors by over disclosing such features.

<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>

Yes.

<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.

However, this seems very straightforward and I am not sure to understand the benefit of this typology of ESG-related needs. Also, I am not sure they are easily understandable by non-professional investors. Maybe adding a few examples could make things clearer? "I want to have a positive impact on gender equality." or "I want my portfolio to be aligned with the Paris-objectives." or "I want my portfolio to create jobs."

*We also insist on a clear distinction between institutional investor and private investor.*

<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. We should also include “institutional and private”.

<QUESTION\_44>

**General Comments: Please enter general comments below.**

<GENERAL\_COMMENTS>

The CFA Institute has a role to play in setting ESG disclosure standards and this is a great start!

However, we should be careful of the risk of misleading information by setting standards too low, or too broad. An investment product that adheres to these standards needs to be an ESG investment product. One should not be able to disclose normal governance due diligence procedures and imply that the investment product is ESG because it follows ESG disclosure standards.

Also, a greater focus on materiality is needed, both for positive and negative impacts. We could develop our own matrix as the CFA Institute or refer to another one.

Finally, we have to be aligned with the EU SFDR (Regulation EU 2019/2088 Sustainable Finance Disclosure Regulation) as it will apply to all European actors. For example, the form of the disclosure and the main ESG indicators will be largely defined by the regulation. The CFA Institute ESG Disclosure Standards can help level the playing fields and make things globally comparable for global investors.

The CFA Institute should align principles with European trend on double materiality.

<GENERAL\_COMMENTS>