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: *(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 Switzerland
Stakeholder Group: *(Please select the stakeholder group with which you most closely identify.)*	Asset Manager
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.)*	Europe
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.)*	Switzerland
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>

Yes, we agree. Due to the heterogenity of ESG investment approaches, ESG products and ESG lanugage interpretations, a standard is required to provide investors with more transparency that allows investors to compare ESG-marketed products across financial institutions. Many market participants are concerned that inconsistency and variation in ESG-related terms, investment approaches, and disclosures have led to confusion and misunderstanding between investors and asset managers and that may, over time, lead to erosion of trust in the industry. It is challenging but a common terminology, classification and disclosure requirements that investors can trust will help them to compare similar products not only with the common financial terms: risk, return, duration/maturity, liquidity but as well the ESG factors integration or consideration. The standard should cover specific terms (like impact investing) as well as definitions of conditions that describe the sustainability of an investment approach (such as fully integrated ESG information - what does that mean? Maybe it would help investors to have a “quality certificate” that describes the quality of the investment process itself rather than just the product sold).

<QUESTION_01>

Terminology

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

<QUESTION_02>

As the term “Asset Manager” typically denotes investment managers who manage the assets of institutional investors and pooled funds, a more general term “Investment Manager” would be more preferable.

Besides, Regulation (EU) 2019/2088 uses more technical terms of financial markets participants for asset managers (managing the assets of collective investment schemes), investment firms (managing individual portfolios/separately managed accounts) and financial advisors offering non-discretionary, advisory services.

We understand that the Standard focuses on investment products rather than on asset managers / investment firms and their strategies on a higher / more generic level. We wonder whether the inclusion of financial advisors should also be contemplated, since their integration into the proposed scheme seems attainable at little cost: ESG-related features are defined as components or capabilities. Capabilities can also be seen as building blocks for non-discretionary advisory services.

By definition, the “ESG-related features” are used “to provide a benefit for the investor, that relies on ESG-related factors or addresses investors’ ESG-related needs”. An ESG-related need, in turn, is defined as “a benefit related to ESG matters that an investor must obtain (needs) or would like to obtain (wants)”. Taken together, the definition reads: A component or capability … to provide a benefit for the investor, that … addresses investors’ benefits related to ESG matters that an investor must obtain (needs) or would like to obtain (wants).

The definition of ESG-related features seems to overlap with the one of ESG-related needs. Shouldn’t ESG-related features not correlate with investors’ needs (see Table 3, needs - features matrix)?

We suggest the following definitions which we find clearer and more distinct from each other:

ESG-related feature = A component or capability, intentionally incorporated into the design of an investment product ~~to provide a benefit for the investor~~, that relies on ESG-related factors ~~or~~ to addresse~~s~~ investors’ ESG-related needs.

ESG-related need = A benefit related to ESG matters that an investor must ~~obtain (needs)~~ or would like to obtain ~~(wants)~~.

It may also be helpful to include the definition of a product feature found on p. 13 of the consultation paper: features of investment products include, but are not limited to, objectives (outcomes that the investment product intends to attain or accomplish), constraints (limitations or restrictions), policies (decisions to follow certain principles or courses of action), and methods (techniques and procedures).

We also recommend clarification of the term “institutional investor” (p. 26 and 27) to consider regulatory definitions in Europe: The terminology used in the MiFID II regime applies the term “professional investor”. The MiFID II regime (as well as the Swiss FinSA) uses the term „institutional investor“ only for certain prudentially supervised financial markets participants, which are a subset of the group of professional investors.

It would also be helpful to provide an example for the different terms, outlining the difference between ESG matters, ESG-related factors and ESG-related features.

In addition, we recommend to add and clarify terms “Consultants and Advisors” and “Database provider” used in Section “Users and Benefits”.

<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>

CFA Institute should more precisely outline its vision on how the new Standard is going to fit into the future regulatory and self-regulatory environment in the ESG area, such as the EU Action Plan on Sustainable Finance. Table 1 only shows that the proposed CFA Institute’s Standard will fall into the category of specifications of investment product disclosures, but is not clear on whether the Standard will be competing or complementing the other regulatory initiatives, such as the EU Sustainable Finance Disclosure Regulation (SFDR)? What is the differentiating factor of CFA Institute's Standard vs. other similar frameworks?

In terms of further regulations and standards the following industry self-regulations should be considered:

- Sustainable Asset Management: Key Messages and Recommendations of Swiss Funds & Asset Management Association (SFAMA) and Swiss Sustainable Finance (SSF) (June 2020)
- Guideline for the integration of ESG considerations into the advisory process for private clients by the Swiss Bankers Association (June 2020)
- UN Principles for Responsible Banking

<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.

A disclosure-based approach rhymes better with the voluntary nature of the Standard and is more relevant since the availability of multiple approaches is a positive feature of the industry (it makes the industry more competitive). As observed in practice, there is no one unique sustainability approach that is superior to all other approaches. At the current juncture, there are still many different views and approaches to the ESG topic so that it seems premature to adopt a prescriptive-based approach, which would require a broader consenus on terminology and methodologies.

It should not be the task of CFA institute to determine which approach is best but to provide the framework for investors to make an informed decision. A prescriptive-based approach might be an idea in the future when ESG compliance may become mandatory for all investments. But at the moment it is too early due to the lack of common rule/standard or/and methodology to be imposed or enforced.

Nevertheless, it might be useful for an investor to at least have an overall indication of how the specific product performed – e.g. this could be a "transparency quota" indicating that 8 out of 10 indicators have been reported or another indicator that gives an overall indication.

<QUESTION_04>

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

<QUESTION_05>

We understand that by "firm-level" the firm's own corporate sustainability efforts are meant – in this respect, it may make sense that the focus should be on the product-level disclosures.

However, if taken serious, sustainability should not (only) be about "products", as it is based on a certain mindset. Inconsistency between an ESG-labelled product and the manager's mindset would likely be interpreted as “greenwashing”. Firm-level disclosure will increase a manager's credibility, e.g. at a minimum, the percentage of AuM covered by the standard should be disclosed.

A sustainable product is highly limited in its effectiveness if the company behind it does not take sustainability into account for the rest of their business strategy. Investing in a sustainable fund (highest transparency, superb rating) that is managed by a company not integrating sustainable in their business practices (like business travel, lending and financing activities etc.) does not result in an overall positive effect. It also seems problematic to pay management fees for a sustainable product to an unsustainable asset manager, financing the expansion of their overall unsustainable business activities (although this depends on the ESG-feature - investors would put more emphasis on the sustainability practices of the manager if they are looking, for example, for an impact strategy rather than for an exclusion-based approach).

Also, comparing firms could be a more general approach for a first selection and comparison. For example, the “ESG MONITORING, REPORTING AND DIALOGUE IN PRIVATE EQUITY” paper developed by PRI mentions Core disclosures to have an overview of the LP monitoring its investment and RI performance of its fund managers and Additional disclosures designed to monitor individual portfolio and fund managers RI performance. In this respect, CFA Institute could think about two levels of disclosures. Feedback from investors might be relevant to see if there is any needs and if this will bring additional value.

Also, it should be considered that some regulations, such as EU’s SFDR, include disclosures both on firm level and product level. Accordingly, asset managers will have to deal with both levels and will need quidance how to cope with the both. Besides, an ESG asset manager’s credibility seems higher if its parent company also endorses the consideration of ESG matters.

The standard should incorporate the firm-level sustainability in some way.

Besides, as stewardship/engagement with respect to investee companies is normally done at the company level rather than at the product-level, it should be clarified how this will be reflected in the product-level disclosures.

<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 disagree.

The Standard is already voluntary as such. Selectively applying it to certain investment products does not seem in line with the goal to foster comparability and transparency. Also, many requirements of regulations, such as the EU’s SFDR, even apply to investment products without ESG-related features (e.g. Art. 6 SFDR). We support the focus on products with ESG-related features, since it seems most relevant to the investors from a practical point of view, but the standard should be applied to all investment products with ESG-related features managed by the firm, and not selectively. By being applied to the whole firm, the standard could also help investors understand the share of sustainable AuM or products managed by the asset manager and their performance.

<QUESTION_06>

Design Principles

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

<QUESTION_07>

Agree. The terms should certainly be easy to understand for the average interested investor.

For example, Art. 2 no. 1 of the joint draft RTS to the EU SFDR states: “Financial market participants shall provide the information referred to in this Regulation in a manner that is easily accessible, non-discriminatory, free of charge, simple, concise, comprehensible, fair, clear and not misleading. The information shall be presented and laid out in a way that is easy to read, using characters of readable size, and shall be written in a style that facilitates its understanding”.

Potentially a design principle of “neutrality” could also be added.

<QUESTION_07>

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

<QUESTION_08>

In general, we agree.

With respect to the principle “Disclosure requirements should allow asset managers the flexibility to make the required disclosure in the clearest possible manner given the nature of the product” we would like to add that Closed-end questions could serve as a starting point, which can be represented as a “factsheet” taking up little space. Open-ended questions could provide more detail to the investor.

With respect to the principle “The disclosure requirements should prioritize content over format” we understand the willingness to reduce asset’s manager burden. However, it is important that examples of disclosure presentation are clear and simple to use and aligned as fundamental differences between disclosure format among firms may reduce transparency and comparability.

<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>

This question is about balancing between convenience for investment managers to prepare the information vs. user-friendliness for investors, and investors’ interests should prevail in this respect. In general, it is easier to read and find the relevant information if provided in a single document. As an alternative it could be possible to include the most relevant information in a single document (e.g. closed-end questions or required disclosures) and address more detailed questions in an “appendix”, e.g. referring to the legal offering documents or factsheets of the investment product. If the information is spread over different sources, the content should be linked in a clear way. In this respect, we recommend to consider the requirement of Art. 2 no. 21 of the joint draft RTS to the SFDR that requires a searchable electronic format.

<QUESTION_09>

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

<QUESTION_10>

Agree.

<QUESTION_10>

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

<QUESTION_11>

Independent examination should be recommended as best practice and left to the discretion of the investment manager. Ultimately, independent examination may become a de-facto standard practice (e.g. as with the GIPS standards) as ESG investors would likely prefer the investment products that had an 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>

Ideally, the independent examination of disclosures should be performed with respect to both design and implementation as this adds context and important information and gives more assurance to the investor. However, it should be left up to the firm whether to engage the independent examiner relative to only the design or both the design and implementation – the respective parameters will be disclosed in the examiner’s report and enable investors to determine whether they can place the required reliance on the examination.

<QUESTION_12>

<u>Proposal for General Disclosure Requirements</u>

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, and would like to raise the following remarks:

Description of the investment product's investment mandate, objective, or strategy should also include the expected risk/return effect of the ESG features, and also such matters as use of leverage and derivatives.

With respect to the benchmark the disclosure should include clear KPI on how the financial product evaluates against its stated investment objective from an ESG perspective (e.g. beat the benchmark index in terms of carbon footprint, etc.)

The meaning of "time horizon of the ESG investment analysis" should be clarified.

<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>

This should be part of feature-specific disclosure requirements.

Contributing to UN SDG may be an element of a specific investment product's policy but may not necessarily be applicable to all ESG investment products, e.g. to those products that consider ESG from the pure investment risk management perspective without explicit objective to contribute to UN SDG. Another challenge in this respect is that products that link their investments to the SDGs often don't show clear criteria on how this is done. In the end, every large cap company can be linked to multiple SDGs although they often violate another SDG with their business practices. Hence, disclosures on UN SDGs may be a product-specific recommendation but no requirement.

Another topic that is important is alignment with the Paris Climate Agreement, which may be a requirement for products that focus on carbon emissions or advertise with a low carbon footprint.

<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>

Generally, yes, as this disclosure would be in line with the regulatory practice in the EU and would help asset managers in complying with the SFDR in a practial and investor-friendly way. The SFDR requires both qualitative and quantitative information on negative adverse impacts (see Preamble 20 to the SFDR).

Important is that the Standard is aligned with the SFDR and that contradicting provisions are avoided. It would also be helpful to provide clarity with respect to definition of "adverse impacts", e.g. whether this is related to absolute (e.g. planetary boundaries) or relative (less efficient, marginally worse) sustainability factors.

It is also advisable to align to the PRI framework.

<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, this is a commonly used term for this ESG approach.

<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, this is clearly outlined in section "Benefits".

In fact, due to its risk-return emphasis Feature A may eventually become a general feature inherent to all types of ESG investment products.

<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>

Generally, yes.

In section "Function" the sentence "ESG-related factors that are material to the risk and return of an investment are ESG-related factors that a reasonable investor would consider to be important to an investment decision” could be extended with: “…and has the potential to be relevant for the value of the investment”.

We also would like to emphasize that ESG metrics are often overdetermined, i.e. different metrics may describe the same underlying issue. "Notes" should specifically refer to the discretionary nature of which metrics are used, model risk inherent in the process, additional disclosure regarding back-testing, data quality. It should be made clear whether optimization methods are being used or not.

<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>

Agree, in general.

However, given that every investment manager today at least claims to have a “very comprehensive / state of the art” ESG integration approach, a quantitative measurement would be very useful from an investor point of view. The disclosures should explicitly address quantitative metrics measuring the incorporation of ESG data in the investment process, and the effect on investment risk, both ex-post (realised) and ex-ante (expected), and on the risk-adjusted return. In this respect, the mentioned performance attribution analysis should be defined as decomposing the risk-adjusted return to the ESG-factors as elements of the investment decision-making. This would also help to measure the weight or role of the ESG integration in the investment decision making. For example, the importance of ESG related factors compared to traditional financial factors. Sometimes some investment managers give the impression to only do ESG analysis following investors’ demand requirement but that in reality these factors have only a very low impact in the portfolio construction process.

In addition, the Standard should clarify how many ESG factors need to be considered so that it qualifies for "ESG Integration"? For example, would only considering "Governance" be sufficient to qualify for "ESG Integration"? Would firms need to explain in the disclosures why some ESG factors are not relevant? To what granularity would they need to do that?

<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. Term “ESG-related exclusions” should be used alongside the term “ESG-related negative screening” interchangeably.

<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, they can generally both be covered by Feature B. We typically see negative-screening or ESG-related exclusion (as the Standard calls it) as one single feature that can be divided into two sub-categories: value based screening and norm-based screening.

The term “norm-based screening” needs further clarification regarding what norms are considered, especially if local norms are also being respected next to international norms. Norms like the UNGC cannot be measured clearly and different rating providers give different exclusion recommendations.

Combining both terms in one feature is fine, as long as a clear definition is in place. With regards to the term “limitation” it should be clarified whether it’s a partial limitation (x% of overall exposure) or a complete exclusion.

We also need to be aware that term "Negative screening" may also be understood as to identify candidates to underweight against the benchmark, and not necessarily to fully exclude. "Norms-based screening" also needs to be clearly defined as it could also relate to positive screening. In general, "Exclusions" should be differentiated from "Tilting", and for "Exclusions" it should also be clarified that a side-effect of that is that equity investor woul lose the ownership rights as an equityholder (i.e. engagement is no longer possible) and hence no real "impact" beyond a change of ownership can be expected.

<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.

In our view, exclusions, being based on individual or societal values or norms, is rather a simplistic feature which does not holistically reflect the ESG investment concept and has various negative side-effects (such as reduced investment universe, increased volatility). However, it is an approach that has been in the market for a long time and may still correlate well with certain investors’ ESG related needs.

<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>

Yes. It is important to require a detailed and explicit disclosure of exclusions so that investors can understand how the investment universe is reduced, what sectors and industries are excluded, etc.

Types of issues to be addressed should also specifically refer to (revenue) thresholds being used (for exclusions related to business practices) , and role in the underlying value chain (e.g. nuclear weapons: production, storage, or distribution). Also, the tracking error relative to the initial investment universe should be included as a KPI.

<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>

This is a difficult question.

"Best-in-Class" is already well-established and may be more preferrable although the term "class" itself is normally limited to one or multiple performance metrics. An investment product using the "Best-in-class" approach would have to define the metrics the approach is applied to as granular as possible. "Positive screening" may be confusing as it implies a positive outcome/impact of the investment product whereas "best-in class" gives a signal that the investment product invests in companies having a better ESG performance compared to its peers. Besides, term "Positive ESG Performance Profile" may be confused with theme and impact investments.

Actually, some academic sources consider the "ESG Integration" and "ESG Best-in-class" as subcategories of a broader category "Positive screening".

Alternatively, this approach could be named "Best-in-Class and ESG-tilts".

<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>

Agree.

As mentioned to question 24, some academic sources consider the "ESG Integration" and "ESG Best-in-class" as subcategories of a broader category "Positive screening".

Within "Function" in the first sentence the term "perform better" is not necessarily the case and could be replaced with "is expected/may perform better".

<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>

Generally, yes.

However, we would welcome including an explicit discussion under “Notes” with respect to differences between Feature C and Feature A (ESG Integration) on how the performance related to ESG metrics (focus in Feature C) is linked/related to investment performance (in terms of return and risk – focus in Feature A). Ultimately, selection of “best in class” investments should result in superior risk-adjusted investment results.

With respect to section “Function” we also recommend to modify the first sentence as follows: “Aims to invest in companies and issuers that perform better **or improve more strongly** than peers on one or more performance metrics related to ESG matters”. Same would apply to “Notes” and maybe further specifications.

This Feature is less linked to selecting the best member in a peer group than to a specific ESG performance metric. It should be emphasized that it is that specific metric that needs to be described in the disclosure rather than the fact that investment managers select the best performers (which they are supposed to select in all cases).

<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>

In general, we agree.

We would like to mention the following potential issues that could be considered for disclosure purposes:

We recommend to also include in disclosures the expected (ex-ante) effect of the “Best-in-class” approach on the investment return/risk profile of the investment product. In the proposed list of types of issues the investment performance pespective seems to be ignored.

One potential problem we also see is that ESG performance metrics often vary by sector. A complete list of weightings for each sector may be too detailed information.

Another issue that could be added is to compare the best-in-class company or product with global sustainability goals such as the Paris Climate Agreement / 1.5 degree objective.

A useful disclosure would be how much the overall investment universe changed as a result of the "Best-in-Class" approach, and how the ESG "out-performance" of a "Best-in-Class" approach must be evidenced to investors in the disclosures (for showing the historical ESG rating of the strategy vs its benchmark).

<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.

Thematic ESG investing can be interpreted as "Positive ESG Performance Profile" applied to a theme. At the end of the 1990s, the industry came up with "Megatrend" products, which may better capture the underlying idea and points to the inherent complexity of ESG-"themes" that are interlinked with the socio-economic system.

<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>

Agree.

<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>

Generally, yes.

In section "Function" we recommend to also define the opportunity of debt investments. Currently the focus is on equities ("invest in companies") - this could be reframed to "provide capital to".

Also in Section "Notes" in relation to the statement "Some companies could have weak performance on one or more ESG metrics but nonetheless be positioned to financially benefit from addressing an ESG matter" an example could be provided that under the current definition of the Feature it would be possible to invest in a company that produces solar panels while paying below-minimum wages and having very low security measures in place.

In section "Benefits" we suggest to replace "opportunity to capitalize" with "opportunity to potentially capitalize".

<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>

Generally, we agree. The following issues could be added:

- Explicit targets the product wants to achieve in respect to the respective theme, e.g. benchmarks.
- Methods that are used to assess, measure, and monitor long-term macro or structural ESG-related trends and whether the defined targets of the respective theme have been met. Also regarding performance.
- Sources of ESG data.

<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>

In general, yes, although the term "Impact investing" seems to be more known and widely-used (we understand the provided rationale for not using "Impact investing"). In this respect, we recommend you to reconsider using "Impact investing" especially as all frameworks of other parties referred to in section "Alignments" use the term "Impact investing".

In order to be consistent with the other Features' names, this feature could also be named "Impact Focus" in line with the proposed naming of the Thematic Approach "ESG-Related Thematic Focus".

<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. Potentially, a "real world impact" could be added to the description. This would differ impact investing more clearly from the "best in class" approach which excludes the real world impact as per definition of Feature D.

<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>

Agree.

The following further issues should be added:

- Methods that are used to assess, measure, and monitor whether the defined impact targets have been met.

- Weight of impact objectives in the investment product if multiple objectives.

<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>

Many investors differentiate between proxy voting and engagement. You may consider to have two features. We also often see the term "Stewardship" being used for the combined features proxy voting and engagement.

Alternatively, "Active Ownership" is a widely used term to combine proxy voting, engagement and stewardship activities andcould be used for this Feature.

<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>

Generally, yes. However, many investors differentiate between proxy voting and engagement. It may be advisable to distinuguish between these two aspects.

<QUESTION_36>

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

<QUESTION_37>

Generally, yes.

With respect to section "Function" in the first sentence one could add something like "related to ESG matters". One could add to "Proxy Voting" that it is not only voting but voting based on ESG principles.

The same applies to Engagement. The meetings must address ESG topics. In addition, Engagement is formally relevant to asset owners as the legal owners of the respective shareholdings (although this is often delegated to the investment manager) – this should be added to the definition of Engagement in Section "Function" (currently it mentions only the asset manager).

In additition, Engagement can be linked to large debt/bond positions which are not rights or position of ownership but still can be used to influence issuers' or companies' activities and behaviours. This could be referenced to "Collaborative Engagement " under the PRI reporting Framework.

Engagement can be provided as well with Technical Assistance that will influence the management of the issuer or company to maintain or enhance its value. This could be financed or organized by the asset manager for a specific investment product such as a Thematic fund on Sustainable Agriculture and the budget will be used to improve Environment matters.

<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>

Agree.

The following further issues should be considered:

How the financially material engagement and proxy voting topics are evaluated and prioritized.

For the engagement part, there should be some additional information on how the engagement provider tries to distinguish its engagement progress from the influence of other parties (would be something similar to a quantitative performance contribution). The method of measuring engagement progress should be disclosed, as well as the escalation process if no progress is made during an engagement. Also, how the influence and its results are used in asset allocation, security selection and portfolio construction.

In addition, it should be disclosed on what types of issues and with how many firms in the portfolio the asset manager engaged with during the reporting period.

Given that the degree with which proxy voting takes ESG matters into account may vary greatly, there should be some quantiative measure to indicate this degree (e.g. by providing the information pursuant to Art. 7 of the SFDR - see Question 15), and how the proxy voting activity of the asset manager differ from the voting recommendations issued by professional sustainability experts.

Potential conflicts of interests need to be discussed and disclosed.

<QUESTION_38>

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

<QUESTION_39>

Generally, yes.

See, for example, the SBA Guidelines on ESG (https://www.swissbanking.org/library/richtlinien/leitfaden-fuer-den-einbezug-von-esg-kriterien-in-den-beratungsprozess-fuer-privatkunden/sbvg_sustainable-leitfaden_en.pdf/@@download/file/SBVg_Sustainable-Leitfaden_EN.pdf), p. 13, with a similiar mapping table.

ESG considerations in Real Estate Investments are often separated into a separate area (which could be a separate Feature in this Standard, although Feature (A) “ESG Integration” could conceptually cover Real Estate as well).

We suggest that there should be an explicitely stated rule principle that the list of ESG-related features may be extended in the future. For example, On the Impact Objective part, different variations based on the importance of consideration between financial performance and impact objectives could be added as sub-features to be more precise and allow investors to have more transparency and be able to compare the different impact objective products based on their profile:

Impact investment type 1:

The first type is expected to make ‘make’ the investor money that exceeds ‘the market’. What that means is that when the performance is compared to an internal or national index of investable assets, it is expected to make more money.

Impact investment type 2:

This type might have a financial return that is less predictable and, therefore, potentially riskier (which could be positive or negative for performance). For example, because little is known about the factors influencing the success of the investment.

Impact investment type 3:

The third type often has a net positive financial return (meaning that you will get more money back than you initially invested), but this is expected to be below the overall market forecasts. This type is closely linked to philanthropy, except that you do get some return. The goal of the investment is to help a cause in the most economically sustainable way possible.

Source: Find your SRI https://findyoursi.com/sustainable-investment-101/

Based on original document from GIIN “lessons from the impact investment taskforce - asset allocation working group” (https://thegiin.org/assets/documents/Webinar%20Slides/GIIN%20Webinar%20%20-%20%20G8%20Asset%20Allocation%20Working%20Group%20Presentation.pdf)

<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 list provides a good basis, but is not exhaustive. Naturally, the list of needs is subjective and different investors may add further needs. The selection of the five "needs" may be intuitive, but appears random. Alternatively, they could represent different points on a two-dimensional grid with x= financial/economic perspective and y= sustainability perspective, pointing towards a spectrum on both dimensions. Also, to some extent, the current lists reads like a reformulation of the product related features from the perspective of the investors .

Maybe the definition of the list should be reconsidered based on a representative sample of investor feedback.

The needs will evolve with changing environment and macro-economic factors. The COVID-19 situation has emphasized the needs for investment that intend to make a measurable contribution to a defined environmental or social need, problem or goal. This could be extended (and so create a new need) to investment that intend to change an industry. Pioneer investment in new technologies – (example. health based on AI), new renewable energy, etc. to make a meaningful contribution to a defined environmental or social need, problem or goal. This list should not be static and should evolve with the industry and investor feedbac

The first need "I want to know that the ESG factors that are material to the risk and return of my investments are explicitly considered" should be explicitly linked to the fiduciary duties of pension funds as large asset owners.

<QUESTION_40>

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

<QUESTION_41>

To some extent, the current lists reads like a reformulation of the features from the perspective of the investor. This is illustrated by the almost diagonal relationship between the two dimensons . The third need is an exception but it seems like a cross-section of all needs. Technically, it makes a lot of sense but would any real individual investor formulate a goal like this?

No 1: The rational investor who believes that ESG matters and wants ESG factors be considered as a matter of course.

No 2: A traditional, well-known approach, predating the ESG themes ("no sins, no weapons")

No 3: "Omnibus".

No 4: The thematic investor (e.g. investments in water). Not specific.

No 5: The activist investor. A more active version of No 1.

See also the list of motivations included in the SSF / CFA Institute Handbook on Sustainable Investments (https://www.sustainablefinance.ch/upload/cms/user/201712_Handbook_on_Sustainable_Investments_CFA.pdf) and the SBA Guidelines on ESG (https://www.swissbanking.org/library/richtlinien/leitfaden-fuer-den-einbezug-von-esg-kriterien-in-den-beratungsprozess-fuer-privatkunden/sbvg_sustainable-leitfaden_en.pdf/@@download/file/SBVg_Sustainable-Leitfaden_EN.pdf):

- Compliance with individual or institutional standards —> No. 2.
- Expression of values —> No. 5.
- Improvement of investments' risk/return profile —> No. 1 and 3.
- Promotion of sustainable development and sustainable business practices —> No. 5.
- Generation of a genuine social and environmental impact —> No. 5.

The needs could also be worded in a more catchy way, e.g. "Materiality" (from a risk-return perspective), "(Subjective) Values", "Efficiency" (regarding sustainability), "Profit", "Impact" (absolute goals).

<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>

Conceptually, Table 3 is very valuable and may be of great use to investors. It makes the Standard more tangible than a mere list of principles. The actual table should be left to the individual asset owner or investment manager when designing their appropriateness / suitability tests as to the assignment between features and needs.

From the point of view of an investment manager, the list of features can be used as the first dimension, adding to each feature one of the ESG related needs and using a list of asset classes as second dimension to map the capabilities and suitable risk profiles. See also the SBA Guidelines on ESG (https://www.swissbanking.org/library/richtlinien/leitfaden-fuer-den-einbezug-von-esg-kriterien-in-den-beratungsprozess-fuer-privatkunden/sbvg_sustainable-leitfaden_en.pdf/@@download/file/SBVg_Sustainable-Leitfaden_EN.pdf). In particular, regarding suitability (e.g. Articles 10 - 14 FinSA), the SBA recommends the following:

“The client advisor, where appropriate with the support of ESG experts, strives to match the client’s ESG preferences with regard to ESG investment solutions through the ESG characteristics of specific financial instruments and services offered by the financial service provider. Deviations from the ESG preferences should be clearly identified, for instance if an ESG-related alternative is not available for the desired asset class. Clients should understand the ESG characteristics and should be willing to bear the related risks and consent if a particular investment deviates from their originally defined ESG preferences”.

It may also be a good idea to add asset classes to this table as not every ESG-related feature can be done with all asset classes.

For Feature A “ESG Integration” Needs 3 and 5 could also apply, depending on the interpretation of "integration”.

Feature D “ESG-Related Thematic Focus” could also respond to Needs 5.

<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 agree, in general. While the selection of the four direct user groups is plausible, the standard could also refer to indirect users and how they benefit, i.e. stakeholders such as "civil society" or the "common good", referring to the societal function of finance and investments.

The statement “Moreover, complying with the Standard will not preclude adherence to other standards or labels” has a good intention, but may be challenging in practice given the variety of similar frameworks and new regulations in the pipeline (e.g. within the EU Action Plan Sustainable Finance). The benefit from developing a new ESG investment disclosure standard can only be truly realised if it complements the regulations and is not identical or conflicting with the regulations.

We also recommend to modify the following statement in Section “Consultants and Advisors”: “Investors often rely on investment consultants, advisors, and other entities who consult but ~~distribute, but~~ do not manage, investment products”.

<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>

Agree.

<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

The overall objective of the disclosure standard should allow investors to differentiate between products and assess their alignment with their own investment beliefs and suitability.

For all ESG-related features, the initial investment universe should be disclosed (under "Notes" or new type). The type "Function" should also mention how ESG aspects relate to financial return and a company's value creation process.

Investors that are signatories of the Principles for Responsible Investment (PRI) can use the IRIS catalog of metrics to help demonstrate their commitment to responsible investment practices and support adherence to Principles 3 “Corporate Disclosure” and 6 “Investor Transparency and Reporting”. It might be useful to review the specifications in addition to the List regulations and standards mentioned in Question 3. A catalog of disclosure metrics could be developed in the future in addition to the ESG Disclosure Standard.

<GENERAL_COMMENTS>