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.)*	Financial Services Council
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.)*	Asia-Pacific
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.)*	Australia
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>

A CFA standard could be helpful in promoting consistency. However, as noted in the paper there are multiple member based organisations formulating disclosure regimes and other regulations under consideration across the world. The CFA should take care that its standard is not inconsistent with the disclosure regimes being formulated by regulators and member based organisations around the world. The CFA's standards should be principles based so that they are complementary and consistent with other regulatory and member based standards being developed.

We also observe that the paper is equities centric and note that other types of investments are beginning to have ESG labelling applied.

The 'features' listed under 'ESG Integration' and 'Proxy Voting, Engagement and Stewardship' are processes that occur across a firm's products, not just ESG related products. The CFA should consider distinguishing between product features and firm level processes such as 'Proxy Voting, Engagement and Stewardship', or require the product issuer to explain how firm level processes are relevant at the product level where applying this standard for product disclosure.
<QUESTION_01>

Terminology

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

<QUESTION_02>

The CFA should define 'asset owner' as well as 'asset manager'. In Australia, the approach to ESG may differ for super product (ie. asset owner) vs. investment product. It would be helpful to make clear what the E,S and G factors are. It might also be helpful to have a clearer definition on what constitutes a product falling under ESG.

The inclusion of ESG focussed ETFs in the standard is made ambiguous by the statement that 'The Standard will not apply to the issuers of securities or the information they provide to investors…' Mainstream corporate securities and exchange traded investment products should be distinguished and the standard should explicitly cover ESG focussed ETFs.
<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 standard should align or reference Australian initiatives including from the Responsible Investment Association Australasia and the Australian Sustainable Finance Initiative (ASFI).

It should also align with the Australian Securities Investments Commission's RG65, which refers to disclosure guidelines for ESG, the Australian Design and Distribution Obligations, the Australian Accounting Standards Board Practice Statement on Climate Risk and Corporations Act Operations & Financial Review requirements.
<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>

A disclosure-based approach is to be preferred. A prescriptive approach needs further resourcing to assess and police it being applied honestly which would be difficult to do globally. A disclosure-based approach provides flexibility, which is appropriate given differences in approaches globally and also the rapidly evolving nature of the market.

We do note that the Australian financial regulatory regime is moving away from a primary reliance on disclosure to the onus being on firms in the Design and Distribution Obligations ensuring that products are appropriate for a particular target market determined by the product issuer.
<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 agree that the Standard should focus on product level disclosure. A focus on firm level disclosures can lead to confusion regarding approach and take focus away from actual investment management. There are firm level policies and processes that happen at a firm level such as proxy voting and stewardship. Product level disclosure could say that the firm applies a particular firm wide policy to a particular ESG product.

CFA should also consider if the standard should require products without ESG features to outline why ESG has not been considered.
<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>

Yes, at least initially. The standard will have a stronger uptake if investment managers are permitted to choose the investment products to which they apply the standard. Fund managers may wish to promote

certain funds as ESG, while other funds may have some ESG features but may for business reasons not be promoted as ESG to the same degree. Another option could be a requirement for minimum FUM coverage to be classed as an ESG product. Perhaps there could be a requirement to say where it doesn't apply and why.
<QUESTION_06>

Design Principles

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

<QUESTION_07>

We agree that the CFA should focus on how to improve simplicity and comprehension for the end investor audience. Additional terminology may complicate an already complex environment. Similarity and clarity to a non-investment retail audience should be primary focus. Simplification of already existent terminology would also be beneficial. We agree with the other factors noted also important.
<QUESTION_07>

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

<QUESTION_08>

As in Question 7, we agree, noting the ease of understanding and comparability for retail investors should be prioritised.

With regard to the design principle '*The disclosure requirements should aim to elicit a moderate level of detail',* we submit that rather than focus on the level of detail, the emphasis should be on comprehensibility. It could instead read 'disclosure requirements should aim to elicit sufficient but not excessive detail to promote comprehensibility.'

With regard to the design principle '*The disclosure requirements should prioritize content over format'*, we believe that format should be considered important as a key goal of the Standard is to promote comparability. A format framework would enhance comparability.

We also note the ASIC design principles in their Regulatory Guide 168 Disclosure: Product Disclosure Statements:

a) Transparency – providing consumers with sufficient relevant information to understand the approach of a fund to these issues;
b) Accuracy – ensuring information presented or omitted does not created a misleading or deceptive impression;
c) Comprehensibility – presenting information in a simple and concise manner, recognising that too much information is as potentially problematic for consumers as too little; and
d) Comparability – presenting information in a manner that allows consumers to compare different 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>

The Standard should not require that all disclosures be made in a single document. Firms should be left to determine how to implement the Standard as it relates to their product offerings. Many firms have global platforms and operate in numerous regions where regional regulatory requirements must be adhered to. Firms are best positioned to determine the format and delivery mechanism of any disclosures. At a minimum, the Standard should provide flexibility to provide disclosures across multiple documents. Moreover, firms should be able to leverage existing disclosures made in other regulatory disclosure documents, such as a product disclosure statement, prospectus or Key Investor Information Document (KIID) in meeting the requirements of the Standard. Finally, we believe that firms should be able to use hyperlinks and other digital technology to disclose certain information where it is provided in an electronic format, such as a website.
<QUESTION_09>

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

<QUESTION_10>

We believe there needs to be more clarification about what independent examination would mean. What would this examination look like across regions? Is it realistic to expect any consistency? Without more information and consistency, it would be hard to make mandatory. Our preference is that the responsibility for examination is held by fund managers.

Any independent examination should be voluntary and done at a firm level rather than at a product by product level. If done at a firm level, it should be done only for the products that have been held out as ESG products.
<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>

Given the extra work involved for this, there would need to be an approach where the manager can choose which funds to apply standard to or not (see comment in Question 10). Mandatory independent examination and mandatory application of standard across all ESG funds will be a possible deterrent for large managers with a range of funds.

The implementation of an examination is straight forward for simple funds, e.g. equity funds, but more complex for diversified funds. It would ultimately be dependent on the capability and consistency of examiners globally. If this cannot be assured, any significant difference in quality could lead to unintended outcomes.

Making it voluntary would encourage managers to take up the standard and start to develop best practice. With more experience, the standard would be more established and could become mandatory later.

However, we submit that independent research houses' assessments could be sufficient external scrutiny of the manager's self-assessed rating.
<QUESTION_11>

Question 12: Should the independent examiner (i) examine the disclosures relative to only the design of the investment product, or (ii) examine the disclosures relative to both the design and implementation of the investment product?

<QUESTION_12>

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

<QUESTION_12>

Proposal for General Disclosure Requirements

Question 13: Do you agree with the scope of the general disclosure requirements? Are there topics that should be added, deleted, or modified?

<QUESTION_13>

We believe this doubles up with existing disclosure requirements (eg: investment universe, benchmark) and should focus on ESG related features. The CFA should consider adding the details of a materiality threshold used for exclusions or other ESG considerations.
<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 feature specific as there are different approaches to the SDGs globally. The way SDGs are integrated across markets and funds differs and this could lead to inconsistency if this is placed up front. Putting SDGs upfront risks 'rainbow washing' as fund managers will be more tempted to backsolve for this.
<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>

No it shouldn't. This is covered by those standards and labels where applicable.
<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, however this could be made more simple for non-expert audience (eg. Consideration of ESG factors). The CFA should consider the need to balance existing terminology with the goal of improving understanding. We also note that the document doesn't give consideration to a diversified/ multi-manager approach. Eg: ESG integration is missing - manager selection, appointment and monitoring.

We note however that this feature includes processes that are implemented across a firm's product offerings as part of the asset management process and not just for ESG specific products. The CFA should consider how disclosure can distinguish between firm level processes and product specific features or outline how firm level processes are relevant at the product level.
<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>

No comment.
<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>

We suggest adding where responsibility for integration of ESG factors lies. Disclosure on how ESG is integrated and the roles and responsibilities of those involved would be beneficial. ESG integration is

broad so it is good to know at what point in the investment process is it integrated. How does it influence the investment position?
<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>

Yes
<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
<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
<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
<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>

There could be a voluntary option to include list of excluded securities.
<QUESTION_23>

Question 24: Do you believe that "Best-in-Class" is a clear and appropriate name for this feature? If not, is "Positive ESG Performance Profile" a better name? If you dislike both of these names, please suggest an alternative and explain why it would be a better choice.

<QUESTION_24>

We do not believe that either "Best in Class" or "Positive ESG Performance Profile" is a clear and appropriate name for Feature C. With regards to "Best in Class" specifically may imply a certain level of investment performance that cannot be substantiated.

We agree with the points made in the notes section of the Feature C description:

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

Hence, we suggest the use of a different name.

<QUESTION_24>

Question 25: Do you agree that Feature (C) is distinct enough, particularly in the types of issues to be addressed by disclosure requirements, that it should be separate from other features? If not, please suggest the feature with which it should be combined.

<QUESTION_25>

Yes
<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>

Yes
<QUESTION_26>

Question 27: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (C)? Are there issues that should be added, deleted, or modified?

<QUESTION_27>

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

1. description of how ESG scores or ratings are used to determine investment;

2. sources of ESG data used in portfolio analysis; and
3. benchmarks for ESG metrics.

<QUESTION_27>

Question 28: Do you believe that "ESG-related Thematic Focus" is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_28>

Yes, however this could be made more simple for a non-expert audience (eg. ESG/ Sustainably themed). We suggest that disclosure of what the thematic focus is would be helpful. Eg: renewable energy. Perhaps there should be a list of fund names

<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
<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>

If it's an activity related investment (eg: renewable investment), what is the threshold (revenue) of the activity that should be met? Other types of thresholds used by managers in the process should also be disclosed.
<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.
<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. It should highlight the ranking of objectives and if impact is considered above investment objectives, or how it may otherwise influence an investment decision. We recommend a detailed description of the outcome of the impact objective.
<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>

This could be simplified to 'asset stewardship' or just 'stewardship'. We note that this incorporates Proxy Voting and Engagement but is broad enough for non-equity engagement e.g. fixed interest, unlisted assets. It needs to allow for other types of influence than direct ownership. At the very least, the order should be Stewardship, Engagement and Proxy Voting.

We also note that 'Proxy Voting, Engagement and Stewardship' is an important part of good asset management process generally and is often implemented across a firm's product offerings, not just with ESG related products. The CFA should consider how disclosure can distinguish between firm level processes and product specific features or outline how firm level processes are relevant at the product level.
<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. Many managers use this to inform their qualitative ESG analysis and use Engagement as a powerful tool to enact ESG change. We want to see this as a specific 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, but it needs to be broad enough to consider engagement across other types of asset classes (fixed etc not just equity investment).
<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>

- *Policies and guidelines for proxy voting, engagement, and stewardship* is an example of where there is too much detail for product disclosure – it would link to voting principles at an entity level.
- *The extent of reliance on proxy advisors*: should also consider other providers eg, engagement providers, ESG research providers.
- Could also include reporting of disclosure records, engagement reporting given importance of transparency for this area

<QUESTION_38>

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

<QUESTION_39>

We note there are inter-dependencies here. Does a best in class fund by definition become an ESG integration fund? There are multiple different strategies in different funds.

We suggest that a seventh discrete category could be considered called ‘Shareholder Activism’ to distinguish from ordinary instances under ‘Proxy Voting, Engagement and Stewardship’, and cover cases where hedge funds and focus funds deliberately seek to use their voting power to influence the composition of company management and boards to force particular policy change within the company.
<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, this is a good articulation of investor types, noting that one person may have multiple motivations.

Investor type 2 maybe should be more closely defined. There are usually two types of ethical investors. There are people who have personal ethical views and absolutely don’t want to invest in particular types of companies. Others have a preference not to invest in other sectors but they aren’t as hard as the former type. Investor type 2 should be the former rather than those just having just a preference.
<QUESTION_40>

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

<QUESTION_41>

No. They're not mutually exclusive, nor need to be. It's possible to find products that cater to multiple needs, e.g. first and fourth.
<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>

It may not be binary as the table suggests. A best in class fund may meet objectives of investor type 1. Depending on what ‘personal belief are’ best in class could meet objectives of investor type 2. Also note that a fund that just had exclusions (B) or Stewardship (F) would not satisfy investor type 3, but these could be included in an option that met the objectives of investor type 3.
<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, but it should be noted that enhanced disclosure for investment products also depends on more consistent ESG disclosures by corporations which asset managers invest in.
<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>

Should asset owners and fund of fund managers be defined and added as a user, separate to institutional investors? The standard would be helpful both in selecting managers and investments and in communicating with beneficiaries.
<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

No further comments

<GENERAL_COMMENTS>