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.)*	Hymans Robertson
Stakeholder Group: *(Please select the stakeholder group with which you most closely identify.)*	Consultant or Advisor
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.)*	United Kingdom
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 a standard is needed to assist investors with understanding and potential comparisons. We believe it's important that the standard is pragmatic and becomes available in a timely manner.
<QUESTION_01>

Terminology

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

<QUESTION_02>

No.

<QUESTION_02>

Purpose and Scope

Question 3: In addition to the examples listed in Table 1, which regulations and standards, either in existence or in development, should be considered during the development of the Standard to avoid duplication or conflict and to ensure alignment and referencing if and when applicable?

<QUESTION_03>

We understand the rationale behind restricting the scope of the standard to exclude underlying issuers. But sourcing specific, accurate and consistent disclosure from fund managers and, in turn, from the underlying issuers is one of the biggest challenges to investing responsibly. We suggest the Standard should be developed in consultation with providers of corporate issuer ESG ratings providers to ensure a high level of consistency across the industry.

<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. We believe a disclosure-based approach has merit but with a robust disclosure standard. The Standard must be rigorous to avoid any potential for "green-washing". Investors and advisors should be able to effectively judge whether ESG risks are being effectively managed with any given product, rather than ESG features being prescribed for them.

<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. The product level disclosures allow for comparison across products whereas firm-level disclosures may or may not be applicable at individual product level, which might be misleading to an investor looking at a specific investment product. Managers should explain which firm-wide initiatives or efforts are relevant, such as wider engagement activities, and how they are applied to individual products. For non-ESG products, these firm-level disclosures are not relevant and should not be included in order to avoid any misunderstanding for investors.

<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, we agree that asset managers should choose the investment products to which they apply the Standard. However, if an asset manager adopts the Standard for some products, it should commit to being equally clear that its other products do not address ESG risks, including products related by asset class or investment strategy. Green-washing non-compliant products should be prohibited for example. We recognise that not all investors believe in the importance of managing ESG risks, nor do they agree how best to manage such risks, so asset managers should be allowed to design suitable products for different investor groups. Once in place, CFA should arrange for a periodic audit of the application of the Standard to ensure managers are in compliance.

<QUESTION_06>

Design Principles

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

<QUESTION_07>

We mostly agree with the design principles but with two qualifications:

1) We would recommend adding “specific” to the list. Non-specific, or vague, terms may sound impressive but are not useful in effective investment decision making.
2) We would recommend removing “familiar” from the list. The use and definitions of familiar terminology can vary across markets (including asset classes) and jurisdictions. This type of variation has the potential to mislead clients. In such cases, it may be preferable to develop new, therefore unfamiliar, terminology

<QUESTION_07>

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

<QUESTION_08>

Yes. The idea of providing both requirements and guidelines works well in the context of wider regulations and should be successful in this application. Flexibility will be needed to apply the Standard across a wide range of strategies, but there are certain areas where it should not be provided such as the definition of certain quantitative metrics, such as a carbon footprint. There has to be a single, correct definition for these metrics.

<QUESTION_08>

Question 9: Should the Standard require that all disclosures be made in a single document? If disclosures were spread across multiple documents, would that pose a challenge for investors to understand and compare investment products?

<QUESTION_09>

We believe that while it is inevitable that disclosures will be spread across multiple documents (e.g. prospectus, factsheets and various marketing materials), it would be beneficial for all users for there to be one single document that can be easily accessed by all which pulls together all the relevant material, using references as required.

<QUESTION_09>

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

<QUESTION_10>

Yes, we believe the disclosures must be trusted to be worthwhile, and that independent examination is likely the only way to achieve this. Consideration should be given to making sure that the examination is robust, and does not degenerate into a tick-the-box process

<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>

Yes, independent examination should be required if the asset manager wishes to claim compliance with the Standard. The manager should be able to weigh the benefits of claiming compliance with the Standard against the potential costs to do so.

<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>

We recommend that the independent examiner examine both the design and implementation of any investment product seeking to claim compliance with the Standard. We believe that many of the likely ESG features depend on an asset manager’s conduct during implementation.

<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 generally agree with the scope of the general disclosure requirements with the potential to add investment constraints as some will be relevant to ESG features. These disclosures should be integrated with the wider definition of the product.

<QUESTION_13>

Question 14: Should the disclosure requirements address an investment product's intention to align with policy goals, such as the UN Sustainable Development Goals (SDGs), and if so, should these requirements be part of general disclosure requirements or feature-specific disclosure requirements?

<QUESTION_14>

We believe that any intention to align with policy goals are feature-specific disclosure requirements and should not form part of the general disclosure requirements. The intention to align with policy goals could be part of an impact or thematic ESG strategy.

<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, it would make sense to be able to reference this directive or any other regulations as they come into play. However, these would be part of the feature-specific disclosures rather than part of the general disclosures.

<QUESTION_15>

Proposal for ESG-Related Features and Feature-Specific Disclosure Requirements

Question 16: Do you believe that "ESG Integration" is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_16>

Yes. ESG integration should refer to the full consideration of ESG risks and features within the management of a product and managers should be required to explain how they are fully incorporated into their investment strategies and processes, rather than "bolted on".

<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.

<QUESTION_17>

Question 18: Is Feature (A) clearly defined? If not, please explain how the definition could be made clearer or more precise.

<QUESTION_18>

Yes.

<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, but the disclosure requirements listed are all disclosures of methodology. Managers should also be required to disclose outcomes, i.e. how successfully they have addressed ESG risks by integrating them into their investment processes.

<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. Any screening criteria should be covered here, as long as the criteria be defined and applied objectively

<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>

Yes, but the disclosure requirements listed are all disclosures of methodology. Managers should also be required to disclose outcomes, i.e. how successfully they have addressed ESG risks by screening out potential investments

<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 are wary of the name "Best-in-Class" as it suggests a binary outcome, i.e. a company is best in class and is included in the portfolio or it isn't. An alternative name could be "ESG Tilted", which would cover funds which do not exclude but rather weight exposure according to ESG characteristics vs a specific metric.

<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, Feature C describes a range of worthwhile strategies which would not be covered by the other definitions.

<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>

Yes, but the disclosure requirements listed are all disclosures of methodology, and we believe that the requirements should also cover outcomes and how ESG risks are measured, monitored, and reported on to clients.

<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>

The term "ESG-Related Thematic Focus" is perhaps inappropriate in this regard in that it is too broad and the term "Sustainability themed" would be preferable and more aligned to the broader definitions. The examples shown all pertain to sustainability themes.

<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>

No. Managers should be required to disclose that ESG risks will still exist and be managed effectively in the portfolio as well as benefiting from ESG-related themes. Without this, for example, a manager could invest into a company producing solar panels and batteries at ultra low cost using child labour and materials extracted from an unsafe and polluting mine, bribing local officials to avoid prosecution.

<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, but the disclosure requirements listed are all disclosures of methodology, and we believe that the requirements should also cover outcomes and how ESG risks are measured, monitored, and reported on to clients.

Asset managers should be required to disclose the criteria they use to select companies into the theme. In addition, asset managers should address whether ESG performance is part of the criteria or if companies selected for portfolios are simply part of the ESG theme.

<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>

Disclosures should make clear whether the impact is direct or indirect. For example, investment in listed equity does not create impact although the activity of the underlying companies may be impactful.

<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>

We believe the name may be too complicated and could be shortened to “Effective Stewardship” or simply “Stewardship”. Both proxy voting and engagement are two possible means to that end.

<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, although we note that exercise of stewardship responsibilities is also a fundamental element of ESG integration through engagement with investee companies.

<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>

No. The reference to ownership within this Feature could create an expectation that, where ownership rights are limited (e.g. debt investment), the ability to influence ESG outcomes is limited. We do not believe that this is the case and that the Standard should be encouraging providers in all instances to consider how they can exercise stewardship.

<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, but the disclosure requirements listed are all disclosures of methodology, and we believe that the requirements should also cover outcomes of voting and engagement.

<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, but the Standard should also specify how it will be reviewed and refined as the ESG product market-place evolves.

The ESG Exclusion criteria is the feature we believe will need to have the most robust definition, and the authors of the Standard will need to make the decision of whether specific thresholds for exclusion are defined or whether it will just require managers to be clear on what has been done or not done. For example, many asset managers will not invest in weapons manufacturers but this simple exclusion alone does not ensure the fund should be considered under the ESG Standard.

<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 does reasonably reflect the range of ESG-related needs and correlates broadly with the Bridges Spectrum of Capital.

<QUESTION_40>

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

<QUESTION_41>

They are distinct but not mutually exclusive.

<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>

We are not sure that the mapping is fully pertinent as the ESG-related needs themselves are highly subjective and debatable. For example, a values-driven investor (Need 2) would also expect as a minimum that ESG integration and Stewardship are fundamentally addressed. We go further in questioning whether the Standard should define this mapping at all as this will be highly individual to each particular 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>

The benefits seem reasonable and accurately describe the different users' benefits.

<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 agree with the terms as written. However, we believe that two important user groups are potentially missing: rating agencies and benchmark providers. If the intention is that they are covered by advisors and database providers respectively, then the definition of user groups is not clear.

<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

ENTER RESPONSE HERE

<GENERAL_COMMENTS>