

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: <i>(Please enter your full name if you are submitting as an individual or the name of the organization if you are submitting on behalf of an organization.)</i>	Michael Garberich & Brad Kelly
Stakeholder Group: <i>(Please select the stakeholder group with which you most closely identify.)</i>	Consultant or Advisor
Region: <i>(If you are submitting as an individual, please select the region in which you live. If you are submitting on behalf of an organization and the organization has a significant presence in multiple regions, please select "Global". Otherwise, please select the region in which the organization has its main office.)</i>	North America
Country: <i>(If you are submitting as an individual, please enter the country in which you live. If you are submitting on behalf of an organization, please enter the country in which the organization has its main office.)</i>	United State of America
Confidentiality Preference: <i>(Please select your preference for whether your response is published on the CFA Institute website.)</i>	yes, my response may be published

Consultation Paper Questions

Market Needs

Question 1: Do you agree that a standard is needed to help investors better understand and compare investment products with ESG-related features?

<QUESTION_01>

Yes, we believe that a standard is needed to help investors make informed decisions when they are investing in products that are ESG-related. ESG investing can take many forms and it is important for investors to be able to make educated decisions as to whether a particular approach satisfies their objectives.

<QUESTION_01>

Terminology

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

<QUESTION_02>

Yes, ESG-Related Factor and Feature seem very similar and could be simplified. These terms could be combined and defined into just “ESG-Related Feature that contributes to an investment process for the benefit of the investor.” ESG-Related Features can be used to target an individual’s ESG-Related Need.

<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>

N/A

<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 agree that a disclosure-based approach would be the best way to increase transparency and comparability. Currently, with the prescriptive based approach, there are too many data providers, asset managers, labels, and initiatives that create their own unique perspective and process when determined if a fund, investment, company, etc is using “ESG-Related Features” in their business. This prescriptive-

based approach can lead to greenwashing. Greenwashing is when a manager may broadly define ESG according to their own perspective. Therefore, when selecting their perspective, there is an incentive for the manager to select a view that is “in favor” with investors.

<QUESTION_04>

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

<QUESTION_05>

Yes, we agree that firm-level disclosures standards, such as SASB, are in place to monitor and track a firm’s sustainability. Multiple S&P 500 companies are already reporting their sustainability on an annual basis. The Standard should focus only on product-level disclosures because it will allow investors to easily compare their investments in a structured, well-defined way.

<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 an asset manager should be permitted to choose the investment products to which they apply the Standard for the following reasons:

1. Investors will have a much clearer understanding of the managers ESG intentions for the strategy. Currently, ESG and related terminology is often broadly used which can lead to misunderstood expectations of the strategy’s overall objective. Those strategies that cannot adhere to the Standards would be encouraged to rebrand, address why they cannot conform to the Standards, or make changes to the methodology to follow the Standards requirements.
2. This will encourage more market participants to develop ESG related solutions because they can do so without applying the Standards to the entire suite of products.

<QUESTION_06>

Design Principles

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

<QUESTION_07>

Yes, we agree.

<QUESTION_07>

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

<QUESTION_08>

Yes, we agree with the design of the disclosure requirements. We agree that the disclosures should include terminology to further reinforce standard terms and definitions across the industry.

<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>

Yes, the Standards should require all disclosures be made in a single document that is easily accessible for all investors and prospective investors.

The challenge with disclosures across multiple documents is It effectively increases the barrier to entry for investors seeking to learn more information. Secondly, it creates the opportunity for managers to intentionally spread certain details across documents.

(* This is included in the design proposals further down). We do think that a summary of the ESG disclosure with brief but informative information be attached to fact sheets that are easily available to investors and prospects. The Fact sheet should also provide direction as to where the full Standards disclosure can be found.

<QUESTION_09>

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

<QUESTION_10>

Yes, we think that a single examination of the entire asset management firm can be left to that specific firms' disclosures for their investors and stakeholders. The independent examination on a product basis will also help separate a specific portfolio and manager from the internal ESG policies from the firm if those principles were different. For example, a firm who has ESG and sustainable goals to become greener by reducing paper usage, does not necessarily mean that the specific product being examined is investing with a similar constraint when selecting investments.

<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>

If the Standards are implemented with the principles described within, an asset manager should be able to submit the reports without an independent examination but with independent examination encouraged as a best practice. This would allow for smaller investment management firms, who may not have the excess capital to pay a large third-party examiner, the ability to provide the same disclosure as the large firms.

<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>

The examination should only be relative to the design of the investment product as an effective/ineffective implementation of ESG related features/factors.

They should examine the disclosures relative to only the design but state the length of time this process has been utilized by the portfolio management team. For example, some asset managers have rebranded certain funds to include ESG in the name and only recently implemented the ESG investment process. This would help compare funds that, may have long term track records, but have only short-term performance history while using their ESG investment methodology (*as described in the general disclosure requirements).

<QUESTION_12>

Proposal for General Disclosure Requirements

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

<QUESTION_13>

Yes, we agree.

<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>

These requirements should not be included in the disclosure requirements or be included in the feature-specific "Alignment" section. We think that the "Alignment" segment could be narrowed down to a set of categories clearly defined by the CFA Institute. The CFA Institute could provide supplemental info, outside of the disclosure, related to that alignment category, which would list firms and goals like SDGs.

We think that this could be abused by asset managers by picking and choosing firms in which they align, to appear superior, or more “ESG”.

<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>

These should be included in the feature-specific disclosure requirements. We think that adding this to the general disclosure requirements would create confusion when comparing investments which may have different regulatory requirements based on their country of origin.

<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, we believe this is a clear and appropriate name for the feature. We think that this is a common term currently utilized in the market and has a more widely accepted definition.

<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 would be consistent. This is a clearly defined feature and would classify as ESG according to these Standards and current market acceptance.

<QUESTION_17>

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

<QUESTION_18>

Yes, Feature A is clearly defined.

<QUESTION_18>

Question 19: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (A)? Are there issues that should be added, deleted, or modified?

<QUESTION_19>

We agree but think that the “Alignment” segment could be narrowed down to a set of categories clearly defined by the CFA Institute. The CFA Institute could provide supplemental info, outside of the disclosure, related to that alignment category, which would list firms and goals like SGDs. We think that this could be abused by asset managers by picking and choosing firms in which they align, to appear superior, or more “ESG”.

<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, we believe this is a clear and appropriate name for the feature. We think that this is a common term currently utilized in the market and has a more widely accepted definition.

<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>

No, we think anything outside of a purely negative screening process should be separated. The term Norms-based screening should not be used at all. Norms-based screening could be positive or negative, based on a certain demographic, social standard, opinion etc. Those specifics should be dropped because it refers to a specific investment strategy. This is similar as to why “Impact Objective” is used instead of “Impact Investing” as explained with Feature E later in the reading.

<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, Feature B is clearly defined.

<QUESTION_22>

Question 23: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (B)? Are there issues that should be added, deleted, or modified?

<QUESTION_23>

We agree but think that the “Alignment” segment could be narrowed down to a set of categories clearly defined by the CFA Institute. The CFA Institute could provide supplemental info, outside of the disclosure, related to that alignment category, which would list firms and goals like SGDs. We think that this could be abused by asset managers by picking and choosing firms in which they align, to appear superior, or more “ESG”.

<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>

No, we do not think “Best-In-Class” or “Positive ESG Performance Profile” are appropriate terms. Terms like “Best-In-Class” or “Positive ESG Performance Profile” could be implied by investors or advertised by managers that there is an inherent benefit to performance explainable by a particular strategy. We think that to create as little additional confusion then there already is in the marketplace, a name such as “ESG-Related Inclusion” would be a more appropriate. This would also provide consistency across features. “ESG-Related Exclusion” and “ESG-Related Inclusion” creates an easier way for investors to identify what specific screening method is being utilized.

<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, but we recommend changing the name to “ESG-Related Inclusion”

<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, Feature C is clearly defined.

<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 agree but think that the “Alignment” segment could be narrowed down to a set of categories clearly defined by the CFA Institute. The CFA Institute could provide supplemental info, outside of the disclosure, related to that alignment category, which would list firms and goals like SGDs. We think that this could be abused by asset managers by picking and choosing firms in which they align, to appear superior, or more “ESG”.

<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, we agree.

<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, we 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>

Yes, we agree.

<QUESTION_30>

Question 31: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (D)? Are there issues that should be added, deleted, or modified?

<QUESTION_31>

We agree but think that the “Alignment” segment could be narrowed down to a set of categories clearly defined by the CFA Institute. The CFA Institute could provide supplemental info, outside of the disclosure, related to that alignment category, which would list firms and goals like SGD's. We think that this could be abused by asset managers by picking and choosing firms in which they align, to appear superior, or more “ESG”.

<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, we agree.

<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, we agree.

<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>

We agree but think that the “Alignment” segment could be narrowed down to a set of categories clearly defined by the CFA Institute. The CFA Institute could provide supplemental info, outside of the disclosure, related to that alignment category, which would list firms and goals like SGD's. We think that this could be abused by asset managers by picking and choosing firms in which they align, to appear superior, or more “ESG”.

<QUESTION_34>

Question 35: Do you believe that “Proxy Voting, Engagement, and Stewardship” is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_35>

Yes, we agree.

<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, we agree.

<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, we agree.

<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>

We agree but think that the “Alignment” segment could be narrowed down to a set of categories clearly defined by the CFA Institute. The CFA Institute could provide supplemental info, outside of the disclosure, related to that alignment category, which would list firms and goals like SGDs. We think that this could be abused by asset managers by picking and choosing firms in which they align, to appear superior, or more “ESG”.

<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 we think that “Best-In-Class” should be redefined to “ESG-Related Inclusions” for reasons stated in Question 24.

<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, we agree.

<QUESTION_40>

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

<QUESTION_41>

Yes, we agree.

<QUESTION_41>

Question 42: Do you agree with the classification of ESG-related features according to ESG-related needs, as shown in Table 3? If not, how might it be improved?

<QUESTION_42>

Yes, we agree.

<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, we agree.

<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.

<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

ESG flows grow at the same rate as ESG confusion. Words like sustainability, responsible investing, best in class, etc. are marketing terms aimed for sales. Because of this, we support the CFA Institutes goal of providing a Standard that can be used globally to help educate and add clarity for investors. We believe that adding Standards in terminology, having an established set of Features and Needs, and the ESG-Related required disclosure, would help build confidence and encourage investment decisions. It is incumbent upon advisors and consultants to fully understand ESG-Related Features and Needs, so we can help appropriately select an investment that align with specific goals.

<GENERAL_COMMENTS>