14 July 2021

David Rutherford

VP ESG Services

On behalf of NEI Investments

Summary statement for publication:

NEI commends the CFA Society for its ongoing efforts to establish a meaningful, practical and useable set of standards for ESG-related investment products. Both through the initial consultation stage and this publication of draft standards we recognize and applaud the diligence and thoughtfulness of the CFA's approach to this complex challenge.

We would caution against describing this document as a 'standard' for ESG disclosure. While directionally useful, disclosure 'guidance' would be a more appropriate term. We do not necessarily view this as a drawback. Rather, at this time in the evolution of ESG product standards globally, and given the fluidity around terminology and materiality in the ESG space, publishing a definitive set of standards would have likely proved flawed, or at the very least inadequate and ill-timed. Although we recognize the acute need for ESG product standardization, we also acknowledge that given the sheer number of organizations seeking to resolve this need, issuing a definitive set of ESG product standards at this time would, in fact, be premature. Far better we believe that the CFA has pulled back from its initial intentions around ESG product standardization and published instead what this document is: comprehensive disclosure guidance for organizations that issue ESG products.

The wisdom of this decision notwithstanding, there are two fundamentals challenges associated with the issuing of disclosure guidance for ESG products:

1. The guidance leaves disclosure response as entirely open-ended and puts the onus on individual organizations to determine how much – or how little – to disclose. While the disclosure guidance provided by the CFA offers reasonably clear parameters around which aspects of ESG products firms should provide information about, it leaves it up to those organization to determine the degree of disclosure applied to those categories. This could result in an uneven application of this guidance.
2. Because of the strong potential for uneven application of disclosure guidance, the proposed standards likely do little to clarify for investors the efficacy of a given ESG product or to enhance an investor's ability to compare ESG products. Under the proposed standards, the work required for investors to evaluate ESG products is not substantially lessened, if it has lessened at all.

The initial intent of the standards, therefore (that is, to provide clarity for investors seeking to evaluate, compare and ultimately purchase ESG products) is not attained under the proposed approach. The onus remains on the investor (or their designate such as an investment advisor) to do the ‘lion’s share’ of the work in this regard. Again, this assessment is not intended to denigrate this effort from the CFA. As discussed above, we believe this is the optimal approach at this time. This assessment speaks more to the state of play around the evaluation of ESG products than it does to the CFA’s contribution in this area.

Ultimately, while we believe the proposed rules have to some degree traded product comparability for flexibility, there is no question that the industry is better off following this guidance than not – especially in jurisdictions where ESG disclosure regulation is lacking (and there are indeed many currently). Furthermore, the universal applicability of this guidance to all types of investment products will, we believe, enhance their appeal.