

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>	Parametric Portfolio Associates
Stakeholder Group: <i>(Please select the stakeholder group with which you most closely identify.)</i>	Asset Manager
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 States
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 agree that a set of global investment product standards from a trusted organization is greatly needed. Global standards will be extremely useful for investors to better understand the ESG-features of investment products and easily compare products across and within asset managers, as well as to mitigate potential legal risks for asset managers. This will also help to minimize greenwashing in the industry and thus increase investor trust, which is currently lacking.

However, we believe it will be most helpful to investors and asset managers for the standards to align more closely with the nomenclature in the PRI [Reporting Framework](#). We find their framework to be very helpful in framing investment products and features, and have adopted PRI nomenclature at our firm. Additionally, it is already widely adopted and understood by asset owners, consultants and managers. A majority of asset managers engaging in ESG investing are already reporting their assets in accordance with the PRI categorizations, and therefore tight alignment between the CFA Institute ESG Disclosure Standards and PRI will make sense, simplify the process for asset managers, and make it easier for investors.

Instead of the 6 features laid out by the CFA Institute, we suggest the following 5 features per PRI (and which CFA Institute features they incorporate): 1) Integration (incorporates ESG Integration and Best in Class); 2) Screening (incorporates ESG-Related Exclusions and Best in Class); 3) Thematic (ESG-Related Thematic Focus); 4) Impact (Impact Objective); and 5) Active Ownership (Proxy Voting, Engagement and Stewardship). We suggest only adopting one feature for screening (not separating negative, positive, and norms-based screening as set forth by PRI). These recommendations are set forth in our responses to the questions regarding Features A – F below.

<QUESTION_01>

Terminology

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

<QUESTION_02>

ESG-RELATED FACTOR should include the term “metric” which is used in SASB and other standards increasingly used for entity reporting.

<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>

As mentioned in our response to Question 1, we believe it to be most beneficial to align as closely as possible with PRI nomenclature.

<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 makes the most sense for this set of ESG Standards. A prescriptive-based approach may force managers to put their products into boxes, versus a disclosure-based approach which provides asset managers the flexibility needed to describe their products. This will then allow investors to better understand the products, compare them, and select the ones that best suit their needs.

<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 focus of the Standards should be on product-level disclosures. The greatest reporting need we see is at the product level. Creating product-level disclosures allows for investors to better compare products side by side.

<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 the asset manager should choose which investment products to apply the Standards to. We ultimately believe it will be in the asset manager's best interest to apply the standards to their entire ESG line up. However, giving the asset manager the ability to select the products on which they report allows the manager to balance the benefits of reporting with any associated costs. It reduces the burden on asset managers that may wish to apply the standards immediately, but do not have the resources to apply the standards to all of their products with ESG-related features. Eventually, however,

we believe that pressures from asset owners will move asset managers to report on their full suite of ESG products.

<QUESTION_06>

Design Principles

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

<QUESTION_07>

Yes. In order to be as useful as possible, the definitions need to be easily digestible for investors of all types and levels of investment knowledge. We like the focus on simple, precise and unambiguous terms, which is what this industry needs. There are currently far too many acronyms and vernaculars that mean different things to different people.

<QUESTION_07>

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

<QUESTION_08>

Yes, we agree with all the design principles with one addition. In order to assure consistent, comparable and decision-useful disclosures, as well as a corresponding ability of data providers to pull data and to mitigate legal risks from the broad nature of the [draft rule](#), the standards should identify specific issues which shall be addressed and, where possible, to incorporate quantitative requirements in addition to qualitative requirements in the standards.

<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 prefer that the disclosures be made in a single document to make it easier for the investor to locate. If investors have to search multiple documents to compile all relevant information, it may make it more difficult to understand and compare investment products.

<QUESTION_09>

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

<QUESTION_10>

Yes, we agree with the design principles of the independent examination. The standards should be designed to serve as a basis for suitable criteria if an entity chooses to seek third-party assurance.

<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>

We believe independent examination should be recommended as best practice but ultimately left to the discretion of the asset manager, similar to GIPS. Ultimately, it will be in the best interest of the asset manager to receive independent examination and asset owners will likely push for it. However, leaving the decision up to the asset manager helps to reduce one potential barrier for adoption of the Standards.

<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 believe independent examination should be relative to both the design and implementation of the investment product. It's important for investors to have confidence not only in how the product is designed but that it is also consistent with how the product is being implemented.

<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 would add that language in the standard regarding general disclosure requirements should be similar to accounting standard language regarding required versus optional disclosure. Specifically, the terms "shall" and "may" unambiguously communicate what is required and what is not for each of the eight general disclosure requirements. In addition, we suggest expanding the time horizon scope to include historic portfolio turnover so clients can see if the forecasted horizon matches their historic horizon.

<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>

If, and only if, a product states that it is intentionally aligning with policy goals, then they shall report on quantitative and qualitative measures to show product alignment with stated policy goals. We believe this will drive more authentic product design disclosure. This should be a feature-specific disclosure.

<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. We don’t feel that this question applies to the majority of ESG-related investment products. However, this could be an optional disclosure.

<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 feel that ESG Integration is an appropriate name for this feature.

<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, it is consistent with the CFA Institute paper.

<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 broadening the definition to better align this Feature with PRI's definition of Integration, and in particular, how it defines integration for both active and passive investment products.

<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>

In addition to the list of issues to be addressed, it is important that the asset manager be precise about how exactly they meet the criteria (e.g. inform economic and industry analysis, use of ESG scores to build alternatively weighted indexes). As part of this, it should be disclosed whether the product is actively or passively managed.

Also, the disclosures should include the type of ESG information that is being integrated into investment decisions and highlight the sources. The PRI Reporting Framework lists different possible sources (raw ESG company data, company-related ESG analysis or ratings, sector-related ESG analysis or ratings, etc.) which may be reported.

In addition, in order to claim conformance with the standard, we believe an investment product shall provide information on all of "the types of issues to be addressed by disclosure requirements" for all of the Features. As it currently reads, what a manager addresses regarding any of these requirements may be interpreted as voluntary.

<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>

We suggest renaming this feature "ESG Screening", to align with PRI's term "Screening."

<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, as mentioned in our response to Question 1, we believe negative screening, norms-based screening, as well as positive/best-in-class screening fit under Feature (B) as there is no difference in function or benefit in the different types of screening. In all cases, a screen essentially divides the eligible investment universe so companies with acceptable business involvement, or behaviors, remain and those with objectionable involvement or behaviors are excluded.

For example, an investor may decide that companies that pass a screen are those with no evidence of fossil-fuel reserves, less than 20% of revenues from selling alcohol, and more than two women on the board of directors. In addition, investors can use ESG screens to address concerns surrounding topics such as environmental protection, or social justice. Either way, the result of a screen is a list of securities that pass the specified criteria and can be used to build the final portfolio.

<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, it is clearly defined with one comment. The final sentence in the Notes section mentions portfolio construction. We recommend requiring that products using optimization techniques to identify the use and objective of such techniques.

<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>

In addition to the list of issues to be addressed, we believe it is important that the asset manager be precise about how exactly screening is implemented. In addition to what is listed, it would be beneficial to disclose the source(s) of the ESG data, absolute thresholds vs peer relative, and frequency of exclusion updates.

Additionally, in order to claim conformance with the standard, we believe an investment product shall provide information on all of “the types of issues to be addressed by disclosure requirements” for all of the Features. As it currently reads, what a manager addresses regarding any of these requirements may be interpreted as voluntary.

<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>

Neither Best in Class nor Positive ESG Performance Profile are clear or appropriate names for this feature. Both names lack clarity as they have many different meanings in the market. This Feature is unnecessary (see Question 25).

<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>

No, Feature C should be incorporated into Features A and B. As mentioned in our response to Question 1, the CFA ESG Disclosure Standard features should align with the PRI Reporting Framework nomenclature. Following that framework, there is no need for Feature C. All the functions and benefits listed here should be mapped to Features A and B.

<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>

If Feature C is kept, we recommend cleaning up the examples so that they only include ESG issues that are typically judged relative to peers (e.g. remove animal rights and welfare). Additionally, we suggest removing language such as “ESG tilt” over “ESG overlay” as the terms are vague and confusing.

<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>

If this Feature is kept, we recommend requiring that products using optimization techniques identify the use and objective of such techniques.

In addition, in order to claim conformance with the standard, an investment product shall provide information on all of “the types of issues to be addressed by disclosure requirements” for all of the Features. As it currently reads, what a manager addresses regarding any of these requirements may be interpreted as voluntary.

<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 think this is a clear and appropriate name.

<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 it is clear and distinct from other features.

<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, it is clearly defined. We would change the term “alpha-generating” to “alpha-seeking” as alpha generation is not a guarantee.

<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 with the issues listed. We also suggest that the first issue should be expanded to include the economic thesis behind the chosen macro trend. For example, “Description of the ESG-related thematic focus, why it was selected, and how the strategy aims to capitalize on the theme”. In addition, we would also suggest adding a disclosure on “The sources of ESG data, estimates, and analysis used.”

In addition, in order to claim conformance with the standard, we believe an investment product shall provide information on all of “the types of issues to be addressed by disclosure requirements” for all of the Features. As it currently reads, what a manager addresses regarding any of these requirements may be interpreted as voluntary.

<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 it is a clear and appropriate name.

<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 believe it is clearly defined.

<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 with the issues outlined. We would add that where ESG objectives are identified as measurable, they shall be reported.

In addition, in order to claim conformance with the standard, we believe an investment product shall provide information on all of “the types of issues to be addressed by disclosure requirements” for all of the Features. As it currently reads, what a manager addresses regarding any of these requirements may be interpreted as voluntary.

<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>

No, we would prefer to rename this feature as Active Ownership, in alignment with PRI.

<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 believe it should be a distinct feature. Proxy voting, engagement and stewardship (or Active Ownership) is a key aspect of ESG investing. Active Ownership is a separate and distinct feature as it does not require any ESG-related portfolio construction features. Additionally, proxy voting can

potentially vary across products within the same firm, so it should remain a feature instead of bundled into general disclosures.

<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 believe it is clearly defined.

<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, we agree.

In addition, in order to claim conformance with the standard, we believe an investment product shall provide information on all of “the types of issues to be addressed by disclosure requirements” for all of the Features. As it currently reads, what a manager addresses regarding any of these requirements may be interpreted as voluntary.

<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, we agree that the features listed here fairly represent the broad spectrum of ESG-related features currently in the market.

<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 believe that it does but can be further simplified (see next question).

<QUESTION_40>

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

<QUESTION_41>

We think the ESG-related needs could be simplified further. From our experience, clients ESG needs fall into the following buckets 1) alpha seeking “I want a portfolio that utilizes ESG to increase performance and/or reduce risk 2) aligning their portfolio with their personal beliefs “I want to align my portfolio with my personal beliefs of the missions, principles or beliefs of my organization”, and 3) encouraging companies to improve on ESG issues “I want to use my investment dollars to encourage companies to improve on environmental, social and/or governance issues”.

For clients looking to ESG for alpha, this can be implemented through the following ESG-features.

- Using ESG integration where the manager incorporates material ESG risk and rewards into the investment process
- Selecting ESG-related thematic exposures that are investor believes is well positioned to capitalize on long term macro trends (e.g. alternative energy)
- Utilizing Proxy Voting, Engagement, and Stewardship (or Active Ownership) to encourage changes that the investor believes will help the long-term profitability of the company (e.g. increasing firm diversity leads to more profitable companies)
- Screening out ESG-related issues that the investor believes will underperform in the future (e.g. stranded assets)

For clients looking to align the portfolio with their personal beliefs, this can be implemented through the following ESG-features.

- Utilizing Proxy Voting, Engagement, and Stewardship (or Active Ownership) to align companies’ policies with the clients’ beliefs (e.g. increasing firm diversity for moral reasons)
- Screening out investments based on ESG-related issues for reasons outside of performance (e.g. faith-based exclusions)

For clients looking to encourage companies to improve, this can be implemented through the following ESG-features.

- Impact objective which allows you to generate positive and measurable impact
- Utilizing Proxy Voting, Engagement, and Stewardship (or Active Ownership) to encourage positive change at the company (e.g. increasing firm diversity)
- Using ESG Integration to allow investors to signal to companies issues that they care about

<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>

Based on the features and needs matrix as written in this paper, we recommend adding 2 more features-needs relationships. Also, we would eliminate Feature C per our response to Question 25.

We would connect ESG-related need 2 with ESG-related feature F. In addition to exclusions, these investors often also look to proxy voting and engaging with companies to influence company behavior consistent with their views. We work with a number of clients that consider both active engagement/proxy voting and ESG-related exclusions necessary to meet their ESG needs. For example, active ownership is an important strategy for faith-based investor groups, such as Catholic and Jewish investors.

In addition, we would include ESG-related need 4 with ESG-related feature A ESG Integration, as investors would look to both thematic and ESG integration features as opportunities to capture ESG alpha.

<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 with the description of user 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, the terms used to define the users of the Standards is intuitive and aligns with industry standards.

<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

Since the late 1990s, Parametric has been helping clients cut through the complexity of responsible investing by being forthright and precise about what's possible and focusing our efforts accordingly. Our approach is also rooted in the belief that responsible investors want something more than just returns. They want consistency between their principles and the activities of the companies in which they're invested. And they want to be able to use their shareholder rights to bring about social and environmental change.

We look forward to the codification of the CFA Institute's ESG Disclosure Standards for Investment Products. The rapid increase in the number and value of ESG-related investment products in recent years and the increased incorporation of ESG issues into conventional investment strategies has created a pressing need for increased transparency. A set of globally applicable standards that facilitate the

reporting of consistent, comparable and quality information regarding investment products that consider ESG issues will better enable asset owners to understand and compare investment choices. Investors need a way to dig deeper into the extent of ESG consideration in investment products so that they can make informed decisions.

We are excited for the opportunity to provide feedback on the exposure draft and aid in the CFA Institute's construction of the Standards in their portfolios, therefore, we offer market-informed recommendations.

<GENERAL_COMMENTS>