

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>	Responsible Investment Association
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>	Canada
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 standardized terminology and disclosure practices are beneficial to market integrity and market development.

<QUESTION_01>

Terminology

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

<QUESTION_02>

No, the terms are clearly defined.

<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>

ENTER RESPONSE HERE

<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 is best for the CFA Institute. A global, prescriptive approach would not be suitable due to regional variation in terms of market maturity. Different regions are at different stages of development, and will be facing unique issues that regional organizations are better suited to address.

<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 product level disclosures make more sense than firm-level disclosures because a firm may offer a variety of products, each with different ESG-related features.

<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 able to choose the investment products to which they apply the standard.

<QUESTION_06>

Design Principles

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

<QUESTION_07>

Yes, the design principles are clear and well-considered.

<QUESTION_07>

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

<QUESTION_08>

Yes, the design principles are clear and well-considered.

<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 asset managers should not be burdened with the need to produce a new document, if they do not wish to do so. Here in Canada, mutual fund managers are already required to produce a “Fund Facts” – a simplified disclosure document that is client-friendly and easily accessible online. An existing document like this would be a suitable channel for ESG disclosures.

<QUESTION_09>

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

<QUESTION_10>

Yes

<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>

Independent examination should be recommended as a best practice, but ultimately left to the asset manager.

<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>

As these disclosure standards are largely about both design and implementation, it seems logical that an independent assessment would cover both design and 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 suggest one potential addition to the disclosure requirements, which can be summed up as “intentionality” or “the why.” For example, why is the asset manager incorporating ESG features and what are the intentions? Is it to improve risk management? Contribute to sustainable development? Fulfill fiduciary duty? Serving values-driven investors? Understanding the fund’s intentions or “the why” with respect to ESG features may be an important consideration for investors, and the fund’s mandate/objectives may not necessarily cover this information.

<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>

No, the disclosure standard should not require asset managers to address specific policy goals because the mandates and objectives vary widely. However, as shown in our response to question #13, we do believe it’s useful for asset managers to disclose their intentions/reason for incorporating ESG features. If the asset manager is required to disclose its intentions or reason for adopting ESG features, this will provide an opportunity for SDG-aligned funds to disclose their alignment with the SDGs or other policy goals.

<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>

What would be an example of principal adverse impacts, and how would this activity be operationalized? There was no discussion of this in the Consultation Paper. More information is required to answer this question.

<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 that ESG integration is a clear and 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>

Please see our response to question #13. We suggest that the disclosure standard should include a requirement to address the intentionality or the reasons why the fund incorporates ESG features. If the fund discloses why it is incorporating ESG features, then this question #17 becomes redundant.

But if the standard does not require disclosure of the fund's intentions or reasons for adopting ESG features, then we believe feature 'A' could be confusing for investors who see the word "environment" in a fund's marketing materials while also seeing an oil or gas stock in its portfolio. In this case, it would be helpful for the investor to understand WHY the fund is using feature 'A'.

<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>

Yes, we agree with the issues to be addressed by the disclosure requirements for feature 'A'.

<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 that "ESG-related Exclusions" is a clear and appropriate name for this feature.

<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, negative screening and norms-based screening are similar enough to be covered by "ESG-related Exclusions."

<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>

Yes, we agree with the issues to be addressed by the disclosure requirements for feature 'B'.

<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 believe that "Positive ESG Performance" is superior to "Best in Class" because the former is more objective. The term "best" is inherently more subjective and exposed to risks associated with (mis)interpretation.

<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, we agree that feature 'C' is distinct enough to warrant its own category.

<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>

Yes, we agree with the issues to be addressed by the disclosure requirements for feature 'C'.

<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 believe "ESG-related Thematic Focus" is clear and appropriate.

<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 that feature 'D' is distinct enough to warrant its own category.

<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, feature 'D' is clearly defined.

<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, we agree with the issues to be addressed by the disclosure requirements for feature 'D'.

<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 believe “Impact Objective” 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, feature ‘D’ 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 to be addressed by the disclosure requirements specific to feature ‘E’.

<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, the name is clear. But the concept of stewardship encompasses a wider scope of activities than those listed in the consultation paper. See page 5 of this report from KKS Advisors and the High Meadows Institute for additional activities that fall under the category of stewardship:
<https://www.kksadvisors.com/investor-stewardship-the-path-forward-2020-report>.

<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, feature 'D' is distinct enough to warrant its own category.

<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, feature 'F' 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>

As noted above, see this report from KKS Advisors and the High Meadows Institute for additional activities that fall under the category of stewardship: <https://www.kksadvisors.com/investor-stewardship-the-path-forward-2020-report>

<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, the six features cover the spectrum of ESG-related features that are currently offered in the marketplace.

<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>

In general, the list of ESG-related needs covers the core needs/motivations for investors when inquiring about ESG-related products.

<QUESTION_40>

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

<QUESTION_41>

Yes, the five ESG-related needs are clearly differentiated.

<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>

Although it is unclear how this needs matrix in Table 3 will be used, it represents a useful starting point for mapping needs to features. We do, however, encourage the CFA Institute to communicate how this matrix will be used. We also encourage the CFA Institute to consider the concept of impact investing in public markets, which leads to a question of whether Feature 'D' should be mapped to ESG-related Need #5 in the matrix.

<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, we agree with the terms used to define the users.

<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

Please communicate how the needs matrix in Table 3 will be used.

<GENERAL_COMMENTS>