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.)*	Responsible Investment Association Australasia
Stakeholder Group: *(Please select the stakeholder group with which you most closely identify.)*	Service Provider
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.)*	Asia-Pacific
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.)*	Australia
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 to the extent that it's useful to compare them based on their classification by 'activity' or 'approach'.

<QUESTION_01>

Terminology

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

<QUESTION_02>

Given the moves in the USA to narrow the purview of investors in their jurisdictions to *direct financial benefit for members* there's a risk referring to 'ESG-related features' because this sets it aside from financial; and there is a risk with this.

However, the definition proposed here in does mitigate that risk.

ESG-RELATED FEATURE A component or capability, intentionally incorporated into the design of an investment product <u>to provide a benefit for the investor</u>, that relies on ESG-related factors or addresses investors' ESG-related needs.

An investment product can have more than one ESG-related feature.

When the consultation talks about marketing materials, is unclear whether it is intended to also covers legal materials. In the administration of its RI Certification Program, RIAA finds in nearly 100% of cases, that there are material inconsistencies between legal and marketing documents/assets. RIAA recommends that disclosures should cover those made in legal and marketing materials, such as product factsheets (and that disclosures about RI products should not be inconsistent across the two)

<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>

RIAA's Certified RI Standard
RIAA's RI Certification Program
RIAA's Ratings initiative - forthcoming
GSIA revised definitions for RI – forthcoming

<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
<QUESTION_04>

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

<QUESTION_05>

Ignoring firm-level disclosures is tricky when dealing directly with an enhanced passive index for example, issued by a manager with an outstanding program of stewardship. If the disclosures ONLY talk to the product features, there is a risk that the investor will miss important information about the Stewardship activities occurring technically OUTSIDE of the product but behind the scenes, at a corporate or asset class level.

Without including some aspect about the issue, the investor misses having information around whether two products with apparently the same ESG matters / features are issued by asset managers that walk-their-talk.

<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. This approach shall support and encourage uptake and use.

<QUESTION_06>

Design Principles

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

<QUESTION_07>

Yes, support. Care to be taken also that terms don't conflict with legal interpretations in any jurisdictions… specifically around ESG related matters potentially being "non-financial" and therefore not consistent with prudential terms such as fiduciary duty.

<QUESTION_07>

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

<QUESTION_08>

Yes, generally support these.

The Standard should aim to elicit a slightly more than 'moderate' level of detail; perhaps marked closer to the due diligence end of this Likert scale. Those interested in providing these disclosures because they have gone to the trouble to embed RI in their investment processes and those interested in assessing and comparing products based on these, want *more than a moderate level of information*. They are engaged, informed and mostly skilled consumers.

Furthermore, there may be assistance needed to be help define "relevant and useful".

CFA Institute should also consider these principles which form the basis of extra-financial audit systems used by Certified Sustainability Assurance Practitioners:

1. **completeness** of disclosure requirements meaning that it's not ok to disclose only a part (say that exclusionary screening takes place) but leave out that this only takes place over the public equities component of a fund (which may be less than 50% of the FUM in a multi-asset portfolio. See RIAA's RI Certification Program Standard and Assessment Guidelines for *RI strategy disclosures for multi-asset funds)*.

2. **consistency** of disclosures meaning that disclosures cannot be inconsistently stated between an asset manager's legal documentation (e.g. a product disclosure statement, pitchbook) and its marketing documentation (e.g. fund factsheet, corporate website). i.e. IF an asset manager voluntarily adopts the Standard, then it needs to be followed such that disclosures are not inconsistent across legal and marketing documentation. An example of this is an asset manager's

- legal documentation "we exclude companies with a material exposure to controversial weapons defined as deriving 5% or greater revenue from this excluded activity"
- marketing documentation "we exclude companies with an exposure to controversial weapons"

CFA Institute needs to take a broader view on where the disclosures take place such that the user is not misled about the integrity of the responsible investing approach applied to this product (in this example that there may well be exposure to Honeywell given their exposure is only around less than 5% revenue from CWs).

3. **reliability** of disclosures, which becomes particularly important when dealing with Impact Objective, meaning that it's not ok to base disclosures on data that isn't reliably sourced, analyzed and maintained. An example includes the use of 'predictive' content contained within disclosures, i.e. this product shall result in a reduction in poverty (noting that the IMP deals directly with the temporal nature of impact claims). Having relevant and useful information should be broadened to include "reliable", "credible" or equivalent.

<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>

A single document is ideal; and if not wholly contained therein, accessible, current links can be provided such that the investor can easily navigate to other relevant documents where disclosure data is contained, managed and stored.

<QUESTION_09>

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

<QUESTION_10>

We have administered a certification program for 15 years which provides independent verification over the investment process of products against their responsible investing claims. The initial assessment and the independent verification are very time consuming and costly.

It's made even more costly when funds then decide to introduce additional products mid-year and have to go through the process again and again.

It would be prudent for the CFA Institute to require a regular check (perhaps annually but certainly no longer than biennially) of the disclosures.

<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>

The CFA Institute first needs to provide the standard (or equivalent agreed upon procedures) that would underpin a *limited assurance* before it is possible to provide a view on this principle being adequate or appropriate.

Our RI Certification Program requires external verification across certain data points that gives confidence to the investor that the investment process is formal, fit-for-purpose, reliable and consistently applied in every decision that underpins the product's delivery. We operate a panel and would be happy to share our insights about how this works, and what changes we've had to made overtime due to challenges as they arise.

RIAA invites the opportunity to discuss how the CFA Institute's six principles may form the basis of the data verification exercise, acknowledging that 'assurance' limited or otherwise would be likely prohibitive for all but the very large asset managers to voluntarily participate in this initiative. RIAA aims to promote approaches to RI that align with achieving healthy and more sustainable economy, society and environment. An initiative that makes it disproportionately difficult for new and small entrants, is difficult for RIAA to support.

In the absence of the details about the scope of the limited assurance, RIAA would support *leading practice* behaviours by asset manager; but CFA Institute would need to make these very clear and update them regularly to keep abreast with developments in leading practice. In the absence of independent verification or limited assurance being codified in the Standard, RIAA recommends a public platform, like our own www.responsiblereturns.com.au that operates as a public register for Certified RI products. This way if products wish to appear on the register, a requirement is independent verification / limited assurance. If they do not have this feature, then they are not eligible to be part of this leading practice "supermarket" of responsible investing products.

<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 with Q11, more information is required in order to provide an informed response. But please note that this is a very important point that needs due consideration as it will impact the take up of the initiative - too costly and arduous, the industry won't do it; but too reliant on self-reporting and it won't have sufficient integrity.

<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>

What's not quite clear, is that once this is successfully implemented, an investor should be able to say, that "because this product meets the CFA Institute's disclosure Standard (I/it).[what is the statement that goes here?] "

1. Description of the investment product's investment mandate, objective, or strategy (consider 'investment thesis' goes to "theory of change" for sustainability related products and makes it CLEARER for Proxy Voting, Engagement and Stewardship focused products to stake their claim)
2. Time horizon of the ESG investment analysis (insufficient information about this disclosure element to provide useful input)
3. The investment universe (prior to any exclusions)
4. The investment product's benchmark(s) (is this intended to be the benchmark against which it is measured for the purposes of measuring financial returns? Or is it intended to include benchmarks such as for sustainability related claims?
5. Description of any monitoring and review procedures to evaluate the investment product's alignment with its stated investment objectives (and whether these have been externally verified or not)

6. The ESG-related or sustainable labels and standards with which the investment product claims compliance
7. Whether the investment product has been independently examined (this needs further clarification; with Big 4 assurance over Annual reports, opinions provided include whether the financial information is ok, but the extra-financial data (e.g. carbon footprint or intensity) is not checked by the auditor… so if retaining this, the intent and scope of this needs to be clearer)
8. Material changes to the investment product's ESG-related features and the effective date of the changes including, specifically, if the investment product has transitioned from an investment product without ESG-related features to an investment product with ESG-related features (it would be helpful to see a template showing how this may be achieved)

<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 to part of General disclosures. In the absence of guidance (or reference to a third-party framework for this) it is very problematic to make this a requirement of disclosure. The Scope of General disclosures number 4 at Q13 is where participants would disclose and alignment with SDGs.

In RIAA's experience only a small number of asset managers genuinely align with the intent of the SDGs, and so by including it as mandatory, there's a risk that even more rainbow-washing takes place. Simply having public equity funds disclosing how their investee companies *incidentally* align with the SDG at best is meaningless and at worst is greenwashing and potentially misleading investors.

<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>

As with the question about SDGs, this is a good idea in theory but in practice, unless it is possible to point to a third party system that defines what is expected from "act to avoid harm" then it is tricky to require it as part of the General disclosure requirements.

HOWEVER:

1. if asset managers are already required to use the EU Taxonomy disclosure requirements, then yes, there should be a linkage made and insisted upon.

2. it should be noted, that normatively (based on longitudinal consumer research in Australia and New Zealand), retail investors <u>**expect**</u> (and therefore assume) asset manager responsible investment products

to NOT invest in harmful activities or behaviours. Therefore, by omitting this requirement from the General disclosures the CFA Institute misses the opportunity to remedy this current misalignment between consumer expectations and industry services.

Perhaps it's worth providing a comply or explain section to General disclosures with respect to adverse impacts. This way it's incumbent upon the issuer to explain how it deals with this or state that it doesn't, rather than potentially allowing the consumer to *assume* that the issuer has dealt with adverse impacts.

<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

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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 they are very thorough, and this is going to be a very long disclosure!

Firstly, RIAA's experience, aside from pure play ethical investors or very large and resourced investment houses, the asset management sector is not sophisticated and lacks formal quality systems and processes that underpin reliable and consistent investment decision making. Fewer than 50% of funds apply an ISO9000 quality system approach to documenting and promulgating systematic application of investment decision making, and record keeping; although RIAA notes this has been improving in recent years. Accordingly, it may by disappointing how few funds can evidence "how material ESG-related factors are distinguished from non-material ESG related factors." If retaining this disclosure, the CFA Institute would do well to provide guidance on materiality in this operational context.

Secondly, it would be possible to embellish this section of ESG Integration and roll in the Best-in-Class Feature Name. Best-in-Class is essentially ESG Integration with a specified, codified performance threshold applied to decision making, i.e. lop off the 20% worst performing companies.

In RIAA's experience, many assets self-classify best-in-class as being a positive screen (as is how this is currently defined by the GSIA and PRI) however in practice, asset managers are tending only to remove the worst performers of a class and not only retain say the top 20% of performers. Theoretically (and also as happens in practice) applying best in class approaches can result in top ESG performing (environmentally friendly) tobacco manufacturers included in portfolios, which is completely consistent with ESG integration but NOT with what the CFA Institute has proposed herein, where it sits somewhere between negative screening and ESG-related-thematic.

<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>

It's ok but not great. Naming this ESG-related Exclusions, may inadvertently confuse people given that the term "ESG" is widely known to belong to <u>ESG integration</u> and is used in the screening for downside risk management, valuations, etc. So, if possible, retain "exclusions" or "exclusionary screens" rather than adding the adjective "ESG" to it. Negative screening comes from the values, faith and ethics-related fields and so ESG doesn't fit well here.

There's also a possible argument for simply having "screens" – without having to provide a negative or positive value alignment to them. The Function and Benefits underpinning the application of screening would remain the same

Excludes or includes securities, issuers, or companies from the investment product based on certain ESG-related activities, business practices, or business segments.

<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>

Norms-based screening is not similar enough with negative screening to be put into the same category, mainly because the nature and drivers behind applying them, are quite different.

Some norms are positive in nature “Rights of the Child”, UDHR etc. hence it doesn’t sit neatly under or within exclusionary screening.

Furthermore, the examples provided in the table on page 16 of the consultation paper (with the exception of child labour) are all WHAT or activity exclusions which fit nearly under GICS and other classification systems. BUT norms-based screening goes to the behaviours of HOW companies and countries behave and so rely on less objective means of assessment, classification and verification. As the industry becomes more sophisticated, much of the norms-based screening should actually be rolled up into ESG integration (and best in class as part of ESG integration) because these are the norms by which investment managers should be basing their ESG research and assessments.

Finally, some funds apply ‘controversy screening’ which is a time-bound norms-based screen that requires real time, quick turnaround research and analysis and is often coupled with Stewardship activities (corporate engagement). Given that some exclusionary screening is codified into passive funds and only checked six-monthly for compliance with investment mandates, including norms-based controversy screening into exclusionary screening will not accommodate the nature of this. An example was BetaShares who divested from Facebook following the hate crimes in a Christchurch mosque in 2019; the DRIVERS for excluding Facebook at that time were reactive, tactical and because *how* the company failed to act (controversy related to governance norms) and not because of the fact that Facebook itself is in the business of creating harmful outcomes, such as can be argued by investment managers for the reasons behind why they choose to exclude tobacco stocks from portfolios (exclusionary screening).

Norms based screening provides the *why* behind some exclusionary screening, but it’s not the whole story. If it is going to be rolled up anywhere, it should be done into ESG integration and not exclusionary screening.

By retaining them as separate aspects it helps reduce the risk of confusing customers about why certain stocks are held in portfolios and others are not. One more example to try and illustrate this: RIAA recently had a RI Certified Australian equities fund that, among other things had ‘UNGC signatory’ as a normative screen applied to the selection of stocks in the portfolio. Rio Tinto, a signatory to the UNGC and ICMM, legally destroyed a 46,000 year old Indigenous cultural heritage site to make way for a new iron ore mine; but this action was met with outrage by communities, asset managers engaged with Rio Tinto management but it led to the divestment of Rio Tinto by some. Divestment only occurred once retail investors were vocal about how their funds, which had codified the UNGC in its processes would behave inconsistently with its social Licence. Remember that Rio Tinto had all legal permits, including “Traditional Owner” consent to destroy this valued area of cultural heritage. This is example attempts to show why controversy screening has a place in the spectrum.<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>

The definition is fine, but the notes need to be amended to remove reference to norms-based screening

<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>

It may be worth creating some trigger for funds to avoid "redundancy". As an example, we have funds that exclude tobacco from their Australian equities funds, but there are no tobacco producers listed on the ASX. Australia's consumer protection regulator calls this a *redundant disclosure*.

During Certification of a USA-headquartered passive asset manager, we insisted that the issuer disclose in its legal and marketing documentation that "the application of this screen to the fund resulted in no stocks being removed from the parent index".

For RIAA to more fully provide input to this question, further explanation is required about what is intended by the fourth dot point under Types of issues. Furthermore it is worth considering whether asset managers are expected publish their excluded holdings and if so, the requirements that may reside over derivates, products that take a net long-short position to manage exposure to excluded funds. RIAA's RI Certification Program has material available to guide the disclosure parameters for these types of products.

<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>

Best in class is widely known to be an ESG integration process with a performance threshold applied. It's a system whereby a product comprises of ALL sectors of the economy but only those investee entities identified as being better than, or not as bad as others in their respective economic classification, is included.

Under this long-used definition, it is consistent that a building supply company that specializes in the manufacture of asbestos sheeting may make it into a "Sustainable Equities Fund" (managed to a best-in-class strategy) because it has the best energy efficiency profile of any other buildings products supply company (in its class). RIAA recognizes that *the outcomes* of this is no longer consistent with normative expectations of responsible investing in this decade, and without taking measures to clarify this, the industry risks misleading consumers.

Accordingly, there is a proposal with the GSIA to revise this definition. More discussion is taking place leading up to the year's end.

Positive screening may result in either a portfolio-wide tilt towards just one economic activity (say sustainable agriculture), which is what is described in Function; but, according to RIAA, the two terms are different and should not titled Best-in-Class.

If Feature B is labelled ESG-Related Exclusions and then Feature C should possibly be ESG-related Inclusions, or exclusionary and inclusionary screening. Or to an earlier comment, for the purposes of disclosure, the two categories could be rolled up as "screens".

<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. We think more work could be done to merge the intention of Best-in-Class described here with the D ESG-Related Thematic Focus. As is being proposed to be done by the GSIA (see point at Q23).

Furthermore, nearly all of these examples provided are codified in norms, even though they produce narrative that appears as "more sustainable companies". The intent of the disclosures is to provide an explanation of the FEATURES and not the outcomes of investing in the products themselves – and this starts to blur lines. The fact that C took a whole page to describe tells us that more work needs to be done to work out where this fits.

It's RIAA's view that best-in-class may be a subset of ESG integration, informed by norms with a formal performance threshold consistently applied.

Drawing on RIAA's 20 years of empirical knowledge defining and classifying the features of responsible investing, Feature C as intended by the CFA Institute (see Function) is best labelled "norms-based leading ESG screening"

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

It's commonly known as sustainability-themed and am not sure the value of changing the name of it.

<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>

Possibly but consider comments under C which suggests that Positive and Sustainability themed could be meaningfully combined.

<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>

It appears that the CFA Institute has differentiated Features D and Feature E not just on the concepts of measurement, reporting and additionality which appears as the Function of Feature E, but also on the INTENT of the asset manager… D seeking principally a benefit for the investor through seizing opportunities; rather than E seeking principally a benefit for people and planet (as well as for beneficiary which, really goes without having to be said.. otherwise, that's philanthropy).

BUT if Feature D is left to be defined as this, then it will become difficult to classify the renewable energy venture capital fund that's not just benefiting from **<u>but actively and intentionally seeking to contribute to solutions</u>**. Is it intended that Feature E is mutually exclusive from Feature D?

Most asset managers undertaking SDG-aligned investing will likely be doing either what the CFA Institute calls Feature C best in class (especially if its over public equities) or Feature D ESG-related thematic focus so it would be useful to call that out here, such that it helps these asset managers not overstate their product features (efforts).

In RIAA's experience, 99% of asset managers that claim to do "impact" are NOT (RIAA relies on the definition provided by the GIIN and the IMP and has this definition codified in the Certified RI Standard including our version of expectations for 'impact in Public equities' – i.e. it's NOT creating impact by company engagement, it has to be because of the intention also of the underlying assets in the product).

So should the CFA Institute push ahead with just Features D and E (and nothing in between), it would make RIAA's task quite difficult. There would be no neat place to put these asset manager products that we would currently classify as 'sustainability-themed'. These in-between products tend to have their portfolios aligned with one or just a few SDG goals or targets, and have underlying holdings in that asset class (or other asset class in the case of multi-asset class products), that are inconsistent with achieving that SDG target).

Example includes the Russell Investments Low Carbon Global Shares Fund with holdings in Exxon Mobil Corp; A legitimately great product offering investors a portfolio with 50% less carbon emissions than the tracking index. But given it has exposure to Exxon, and so RIAA argues whether Feature D can adequately accommodate this (and see ESG-Related Need 4 which is where I think this asset manager is intending this product to go).

<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>

Consider adding the disclosure of alignment with third-party thematic standards and benchmarks, e.g. Forest Stewardship Council for sustainable land-use product, or FAAIR for cruelty-free animal husbandry etc. This gives credence to claims made by the issuer and inferred by the consumer with respect to where proceeds flow.

<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>

Impact Objective works ok. Impact Thesis invites an expression of a theory of change (which is ultimately what CFA Institute is asking for in disclosures); an Objective can be a simple statement of the end state.

<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>

Some impact investors will accept lower returns. RIAA's Benchmarking Impact Australia Report 2020 shows that impact investors have lower expectations of financial returns because they are also investing for extra-financial outcomes. Some investors (especially when considering the many assets within a portfolio) are comfortable with financially concessional returns over all or for a period. Unless there is a clear benefit for out-scoping concessional returns, it may be worth revising the this.

<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>

RIAA recommends, if not already done, do coordinate with the administrators of the Impact Management Project.

<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>

Stewardship implies the activities of engagement and proxy voting so could possibly take a short-cut and just call it "stewardship"

<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 it is, but care will need to be taken not to mislead the consumer.

Whilst most issuers of products will undertake Stewardship activities at a corporate or asset class level, very, very few *products* have Stewardship at the core of why they exist.

Accordingly without very clear guidelines, it may not be credible for investment managers to apportion their stewardship activities to specific products (unless, as Australian Ethical Advocacy fund) it is specifically designed to do so.

Like ESG integration, which is essentially a requirement of good prudential management, stewardship is also the activity of sound investment management. Hence, RIAA is unsure of the merit of including this as a feature to report relevant to particular products UNLESS this feature is strictly reserved for funds directly targeted at influencing through engagement.

Consider the following thought exercise and ask whether the outcomes of the application of this Standard would be consistent with the CFA Institute's intent of developing it.

A passive fund titled "Sustainable International Equities index" claims B exclusionary screening and F stewardship

It screens for and excludes producers of tobacco and controversial weapons

The asset manager/issuer is a member of Climate Action 100+

The product holds Exxon and Chevron

Work will need to be done to ensure disclosures adequately inform a reasonable individual investor of the stewardship feature and therefore efficiency of its application to this particular product, vis a vis the consistent holdings.

<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>

ENTER RESPONSE HERE

<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>

The extent of reliable on proxy advisers is not a very meaningful disclosure; doesn't tell the investor anything. How does this disclosure tell the investor whether the answer is a positive or negative thing.

The priorities of managers for engagement change quite a lot, from year to year or even month to month, so a disclosure requirement that somehow captures that would be helpful.

<QUESTION_38>

Question 39: Do the six features described fully cover the spectrum of ESG-related features currently offered in the marketplace?

<QUESTION_39>

Not sure it adequately addresses 'controversy screening' which is more like a soft norms screen. Norms-based screening is based on international and national codified norms, whilst controversies is more in response to the mood of civilians or sub-groups of these at a given time and place. Whilst the agenda for these were previously moderated by the owners of media, the decentralization of news content creation and distribution, has provided a platform for an ever, increasing relevant and prominence of this feature of an investment product. Those targetting millennials and institutional investors such as pension funds with a direct value chain link to the pension saver, are most likely to create product with this feature. It likely sits under "norms-based screening" but the proposed six features do not adequately account for this. <QUESTION_39>

<u>Proposal for Classification of ESG-Related Features According to ESG-Related Needs</u>

Question 40: Does this list of ESG-related needs represent the spectrum of investors' ESG-related needs?

<QUESTION_40>

Commend the CFA Institute on these as it's a sound method of constructing this initiative.

As mentioned previously, longitudinal research demonstrates that individual investors expect their funds to deal with the nasty parts of their investments. So whilst the first Need deals with (downside) risk, it is almost certain that those same investors would overlay the second Need onto this first (as the papers suggests).

For pension fund that has a fiduciary duty to its members to invest in their 'best interests', the expression of these Needs may require revision. Need 2 could better read "I don't want to violate my personal beliefs or the mission, principles, or beliefs of my organisation <u>or my beneficiaries</u>." A similar adjustment could be made for Need 3, "…. and things I, <u>or my beneficiaries</u>, care about ….

This change of language would also remind people that other people's money is not theirs; that institutional investors are investing on behalf of others.

In order to give voice to the drivers behind universal owners using the feature of Engagement and Voting (assuming you push through with having this as a feature at PRODUCT LEVEL) it may be necessary to introduce a need that better reflects their own theory of change such as "I want to invest in enterprises, assets and projects whose management strategies <u>and disclosures</u> acknowledge and are well placed to respond to the downside risks and upside opportunities posed by macroeconomic trends and also with helping me make better informed investing decisions for my portfolio now and into the future.

Yes, this seems similar to Need 1, but it

a. contains a temporal aspect to it

b. deals with the need being CONFIDENCE in the management of investee companies

c. talks to the systems of how material ESG factors are considered and specifically calls out the agency <u>that transparency gives</u> for better investment decision making and ultimately system stability and sustainability (i.e. TCFD, Climate Action 100+, Workforce Disclosure Initiative, Modern Slavery Reporting); so not just "explicitly considered" but "explicitly considered by competent managers who are transparent with their activities and data." Ok… terrible wording but hope the point is made.

<QUESTION_40>

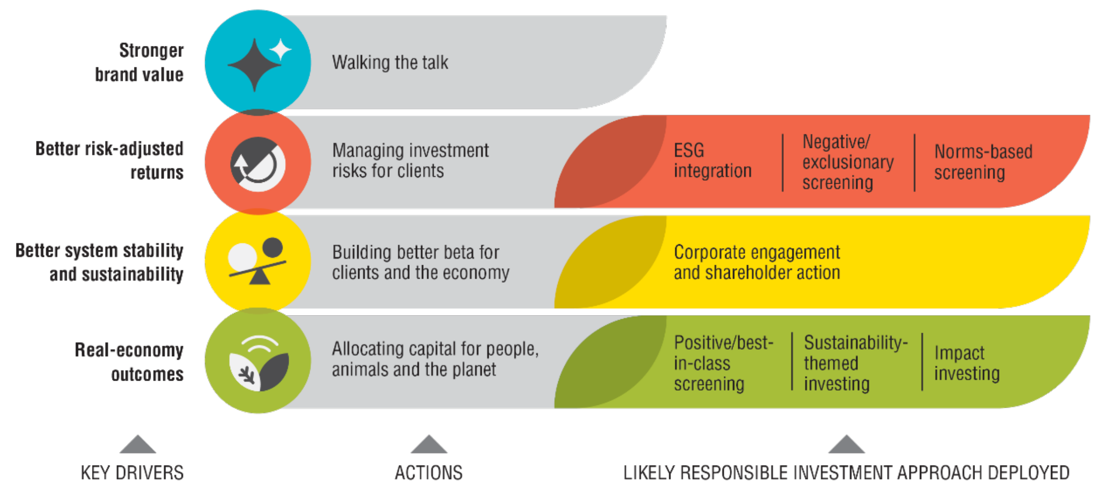
Question 41: Are these five ESG-related needs clearly differentiated and mutually exclusive?

<QUESTION_41>

They are clearly differentiated in their intent; but as intimated in response to Q40, in practice, they are almost certainly not mutually exclusive.

Refer to RIAA's revised drivers for RI and alignment with styles of responsible investing

How the four key drivers for responsible investment align with the seven responsible investment approaches



Responsible Investment Association Australasia
Responsible Investment Benchmark Report 2020 Australia

RIAA talks about the hygiene of doing ESG integration (better risk adjusted returns), some negative and all norms based screening (social Licence to operate), and Stewardship (formal Licence to operate - fiduciary duty)… these three features comprise features of all funds in this decade. Accordingly, it's not that material for Standards setters to concern themselves with efforts behind these. The needs of investors are principally concerned with your 3rd, 4th and 5th Needs… or answering the question "just how much good will this investment generate in the real world". Therefore, it is key to create more "space" for these features to be expressed between what is currently termed positive screening, sustainability themed and impact investing. The CFA Institute proposal only provides two place when there needs to be a "I want to make a difference, but I don't need to be an impact investor".. and that's not just 'ESG integration plus a threshold (or best in class).

<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, I think it's smart to base in on user needs; makes it possible to put the end user at the centre of this solution design. Just needs to possibly build out some of these needs as suggested in our response at Q41.

However, based on our research (and the reason that we are developing a ratings initiative for responsible investment products), end users simply want to know just how much betterment can be derived from investing in a particularly product, i.e. the "so what" or OUTCOMES expected from the features applied.

Understanding the intent of the initiative – to assist with disclosure of features only, given the pace of change and needs of the industry, our sense is that there is dimension missing that could add true value to this endeavour.

Furthermore, people who have Need 4 are likely to be bunched into Need 3 people. By having Need 4 based on the investor's motivation to capitalize on opportunities, it provides very little room for true impact to place (which of course is intended by Need 5).

From RIAA's experience operating the RI Certification Program for 15 years, the last three of these has seen a proliferation of products labelled "impact" that are in fact not managed consistently with the GIIN definition. However, these products do have asset manager intent and some underlying investee intent in them and so they would not fit well in Need 4 and 5.

Need 5 is so important to keep "pure" such that the impact investing community - which is currently modelling what the future of finance looks like for the rest of this century - cannot have their integrity eroded with what we now called "sustainability themed investing".

Am happy to more fully demonstrate what's meant by this using examples of real products certified and available on www.responsiblereturns.com.au and further outline the other dimension to give alignment to features and Needs.

<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>

As a Standard setter ourselves, as well as operating trust and certification marks, if done well, we would most certainly use the outputs from this initiative. Regulators and groups like ours would be a key user group.

<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>

PRI uses asset owners and investment managers and this is the language that RIAA has tended to also use in its publications; same with the GSIA, but there is merit in the way that the CFA Institute has divided that up.

Just checking that Asset Managers and Investors (institutional) adequately addresses the fund of fund style investing where there may be a look through three steps away from the individual investor and each of these “institutional investors” have different needs….

Generally, these are ok.

<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

Welcome the efforts of the CFA Institute doing this work. Thank you. Given that there are international standards for definitions and features, principally delivered through the GSIA, it would be useful to have a representative from this group participating in the technical development.

RIAA operates the world’s longest running Certification Program for responsible investment products (including retail, wholesale, institutional) and with international products certified (see www.responsiblereturns.com.au for a list of certified funds and their features) or read more about the RI Certification Program that operates with a Trademarked symbol for Certified Responsible Investment.

RIAA has also recently taken the position as secretariat for the Global Sustainable Investment Alliance and, among other initiatives, leading a review of the definitions of the seven responsible investment approaches – so the work of the CFA Institute is timely.

RIAA has representation on the Australasia Network Advisory Committee as well as the Global Policy Reference Group of the PRI and are invested in the success of RI not just in Australia and New Zealand but internationally. Our 340 strong membership includes international players including but limited to Aberdeen Standard, Affirmative Investment Management, Aviva Investors, AXA Investment Managers Asia (Singapore), BetaShares, BlackRock, BNP Paribas Asset Management, Eaton Vance, Invesco, MackeyRMS , Nuveen PIMCO, Robecco Hong Kong, State Street Global Advisors, Stewart Investors, VanEck Australia and Vanguard Investments Australia.

The outputs and outcomes of this work, if adopted widely will impact our work in Australia and New Zealand and RIAA would value the opportunity to share real time examples of how things may or may not work in practice.

RIAA was not notified of this work until early October so missed the cut-off of September 23 to volunteer to be formally involved in technical development. We would appreciate being engaged during the technical development so that our work (some of which is currently being recommended to form compliance with regulation in New Zealand) cannot be inconsistent or ill-aligned.

Summary of some points;

1. Avoid the use of the phrase ESG as an adjective for anything OTHER than ESG Integration. The terminology is moving such that we have “sound investing” and we have “impact”, but not ESG throughout; it may contribute even more to current confusion.
2. Disclosures for all need to deal with scope or coverage of features over asset classes; important not to overstate the sustainability credentials of a multi-asset product that only has features across the equities component of it for example.
3. Create more space for sustainability themed and impact such that they can be separate vis a vis the expression of ESG-related needs; not all specific solutions are impact investing (e.g. SDG aligned portfolios).
4. Be strict on the guidance surrounding the declaration of Feature F being applicable to the Product features (as mostly this is occurring at an organizational or asset class level within funds)
5. Do not roll norms just into B, add it also to A if possible
6. Consider renaming “best in class” to “better ESG/sustainability performance” or something like this.
7. Acknowledge that “best in class” is ESG integration with a threshold formally applied
8. Acknowledge that positive screening can occur at a product and portfolio level; disclosures need to explain to individual investors why there may be Exxon in D feature product that claims to be 30% less carbon intensive than the relative index (i.e. asset vs portfolio level).
9. Be sure to assert that the proposed standard cover legal and not just marketing materials. RIAA finds in nearly 100% of cases, that there are material inconsistencies between legal and marketing documents/assets. The Standard should explain disclosures that are appropriate and/or required for both sets of documents/assets.
10. Consider the frequency that the CFA Institute would require verification checks over disclosures (perhaps annually or biennially) as well as how the product retains compliance with the Standard (and therefore what’s the cost commitment of asset managers to applying the Standard) and/or the triggers that would require an update to disclosures and potentially also a new verification or limited assurance activity.

<GENERAL_COMMENTS>