

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>	Ricardo Agreda
Stakeholder Group: <i>(Please select the stakeholder group with which you most closely identify.)</i>	Consultant or Advisor
Region: <i>(If you are submitting as an individual, please select the region in which you live. If you are submitting on behalf of an organization and the organization has a significant presence in multiple regions, please select "Global". Otherwise, please select the region in which the organization has its main office.)</i>	Europe
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>	Spain
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>

I find a potential issue in the clarification provided within this section *“Importantly, CFA Institute is not seeking to define what constitutes an ESG or sustainable investment product or strategy or to make determinations about the relative strength of any one ESG-related investment approach versus another. Rather, the Standard will establish disclosure requirements”*.....An ESG Disclosure Standard would be expected to make clear what sorts of disclosures will be considered compliant and what not. Adding the term “compliance” would therefore state clearly that the ESG Disclosure Standard will act as a standard and not only as a set of recommendations.

<QUESTION_01>

Terminology

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

<QUESTION_02>

ENTER RESPONSE HERE

<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>

It could be worth adding a set of indicative ESG Standards for specific economic activities, which will be applicable depending on the activities financed by the investments. There are Sustainability standards for buildings, infrastructures, agriculture, all sorts of industries, etc. These Standards, more technical, will be added to more formal standards for disclosure, reporting and approaches.

<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. Considering that the goal is focused on transparency and comparability, a disclosure-based standard makes more sense.

Perhaps in a future CFA could also develop a prescriptive-based Standard, but in the beginning it is a more reachable objective to promote transparency and comparability.

<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, definitely. There is a wide range of standards that might help to determine whether a company is internally ESG-fit or not. But the relevant impact in the investment environment is found in products and the use of proceeds, not in firms by itself.

<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>

Considering that the ESG Disclosure Standard is tied to products and not to investment firms, it seems reasonable that the asset manager decided which products are bound to the Standard.

However, it'd also be sensible to think that if the the same asset manager has brown investments within its portfolio too, the credibility of the products bound to the ESG Disclosure Standard might be jeopardized in the lens of many stakeholders.

I do not think the ESG Disclosure Standard should be mandatory for all investment products, but the asset manager should be well versed of the reputational risks of not applying the same ESG criteria to all its products.

<QUESTION_06>

Design Principles

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

<QUESTION_07>

Yes, these principles pursue clarity.

<QUESTION_07>

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

<QUESTION_08>

In general, yes. But the fourth design principle should embed the use of KPIs to inform not only about the ruling policies and procedures but also about the performance.

Policies and procedures do not give a complete snapshot of the product. These may not be thoroughly followed, and therefore KPIs become relevant.

I know this is already mentioned in further sections of the Standard, but giving the relevance it might be worth including into the principles.

<QUESTION_08>

Question 9: Should the Standard require that all disclosures be made in a single document? If disclosures were spread across multiple documents, would that pose a challenge for investors to understand and compare investment products?

<QUESTION_09>

Yes, this is essential and would show good faith from the asset manager. Otherwise, comparing several products might become difficult.

<QUESTION_09>

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

<QUESTION_10>

Yes, an independent examination adds a high level of assurance on the alignment of the products to the ESG Disclosure Standards.

<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>

It should be recommended instead of mandated. Those more interested in showcasing its disclosures would opt for adding an independent examination.

By the other hand, if it were mandated, that could chase away potential signatories in the early stage of the Standard.

<QUESTION_11>

Question 12: Should the independent examiner (i) examine the disclosures relative to only the design of the investment product, or (ii) examine the disclosures relative to both the design and implementation of the investment product?

<QUESTION_12>

The right answer is (ii) examine the disclosures relative to both the design and implementation of the investment product.

Leaving the review only to the design of the product means setting aside the output of the product in terms of ESG. It is not only the policies and procedures what should be disclosed, but also the relevant KPIs applicable to the product.

<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. The only addition I would like to propose was the KPI performance selected by the asset manager in the fifth bullet point (*Description of any monitoring and review procedures to evaluate the investment product's alignment with its stated investment objectives*).

<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 asset manager should hold the freedom to select the preferred goals and frameworks. However, if any of the existing well-known ESG frameworks or goals are selected, the asset manager should explain in what ways his products -tied to the ESG Disclosure Standard- will meet them. They should be embedded in the KPIs.

<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>

If the asset manager is bound by the European Regulation on sustainable finance, the disclosure performed as per the ESG Disclosure Standard by CFA should include an explanation of how the mentioned regulation applies and how it has been met.

<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>

ENTER RESPONSE HERE

<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 would be consistent given that the policy paper “Positions on Environmental, Social, and Governance Integration” is recommending considering ESG factors and mandates the disclosure. No further obligations exist.

However, it is unclear to me the second question, about the sole purpose of seeking to improve risk-adjusted returns. I actually believe that the ESG integration might yield several more benefits, not only the better understanding of risks.

<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>

The definition was made clear, and it has been strengthened by the references to existing alignments.

<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, for the sole purpose of informing about ESG Integration, the type of issues to be addressed are enough.

<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, the name is clear.

<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>

ENTER RESPONSE HERE

<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, the definition does not present any issue.

<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>

I do not find clear what is meant by “benchmark’s exclusions”. Is it referred to peer’s practices? What peers? Who says which peers are relevant? It is unclear.

<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>

Although it is appropriate, it might not be the best option, especially considering it is here where KPIs appear. Perhaps *Best-in-class ESG Performance*.

<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, it has to be separate. The main reason is that it is not based on thresholds or limits, but in comparisons.

<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>

The definition provided is sufficient.

<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>

ENTER RESPONSE HERE

<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>

It might be redundant. This feature is about the matters that make the investment thematic, but the fact it is thematic could not be relevant for ESG Disclosure.

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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, but inserting “product” somewhere would add clarity to the aim pursued, given it is not applicable to strategies but products.

<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>

It is well explained

<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>

Agree

<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

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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 approach is comprehensive.

<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>

I just would add the term "impact" to the last one. This is because the impact investing is not always limited to Environmental and Social aspects.

<QUESTION_40>

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

<QUESTION_41>

I believe they are.

<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>

Does the first ESG-related need necessarily encompass a commitment to Proxy Voting (Feature D)? I do not see it so clear. It just pursues information, not necessarily a solid engagement with ESG.

By the other hand, the second ESG-related might have to come with a commitment to Proxy Voting.

<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>

The relevant stakeholders are already included.

<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>

ENTER RESPONSE HERE

<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

ENTER RESPONSE HERE

<GENERAL_COMMENTS>