

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>	ShareAction
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>	United Kingdom
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>

ShareAction welcomes the prospect of ESG standard requirements for asset managers in order to support asset owners differentiate products. However, we see ESG ‘features’ as a matter of risk analysis and management, which must not be confused with the pursuit of sustainability objectives. As the CFA Institute itself explains in the consultation document, there is really no alternative to the consideration of ESG information when making investment decisions. Hence, all investment products should include ESG ‘features’ automatically. We do not believe that standardization of the use of risk data is useful, and we are not aware that such standardization is applied to any other risk-relevant data. Effectively, the term ‘ESG integration’ should no longer be used as it has become synonymous with ‘risk management’. There is a need for transparency around ESG products but this should focus on methodology and underlying company data.

<QUESTION_01>

Terminology

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

<QUESTION_02>

Yes, we believe they are at least as ambiguous as the term ESG itself, which is, used in both risk management as well as a broader umbrella term for sustainable investing.

<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>

We doubt that classifications like “exclusions” or “best-in-class” will enhance comparability, as they are about the process, not about the result. As an example, how environmental aspects are ranked is important, but is dominated by a clear explanation of what environmental aspects are in scope.

<QUESTION_04>

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

<QUESTION_05>

We think disclosure start with products. However, we would like to stress that a firm’s polices and processes, especially regarding areas such as financial incentives and voting polices are very important. Therefore, product disclosure should state the limits of its use to make it clear to clients and users of the disclosure that product disclosure is only part of the picture. If asset owners want to ensure good quality stewardship, they should assess asset manager’s stewardship activities across all their funds.

<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>

No. It is not clear how the standard is to promote comparability if asset managers can chose whether to apply it or not.

<QUESTION_06>

Design Principles

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

<QUESTION_07>

No. See response to Question 1

<QUESTION_07>

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

<QUESTION_08>

No. See response to Question 1

<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>

ENTER RESPONSE HERE

<QUESTION_09>

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

<QUESTION_10>

No. See response to Question 1

<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>

No. See response to Question 1. Risk management is the prime domain of asset managers. Adverse impact information should ideally be subjected to independent examination, but seems to be outside of the scope of this consultation.

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

Yes and part of the feature-specific disclosure requirements

<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>

ENTER RESPONSE HERE

<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>

We do not think that ESG integration alone should qualify a product. Understanding of ESG has grown significantly in the last few years with ESG integrated into risk management frameworks and valuation processes. Whilst ESG is yet to change pricing in the market on a systemic scale, individual firms are integrating it in to models and engagement with companies. ESG integration is applied across asset manager’s portfolios and we do not feel ESG integration alone is sufficient to warrant a fund being called a particular product type. We do not believe in separating ‘traditional risks’ from ‘ESG risks’, as both are material risks. Responsible Investor recently demonstrated how viewing ESG as something other than risk management is problematic when it comes to the interpretation of regulations in the US.

Best-in-class does not make much sense when considering ESG as a dimension of risk. No portfolio manager would describe their product in best-in-class terms when describing management of credit, interest or inflation risk. The concept only makes sense in a context of sustainability objectives where it would need be replaced by concrete objectives and metrics (a best-in-class concept regarding controversial weapons manufacturers is evidently not sensible).

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

'Screening' only makes sense regarding sustainability objectives. As ESG (see our response to Question 1) should be considered a risk concept, screening has limited meaning. As an example, an investment grade bond product would normally be described as 'investment grade', not as 'excluding high-yield risks'.

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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 does not make much sense when considering ESG as a dimension of risk. No portfolio manager would describe their product in best-in-class terms when describing management of credit, interest or inflation risk. In the same vein, no manager would describe their product as 'positive credit performance profile'.

The concept only makes sense in a context of sustainability objectives, where it be better replaced by concrete objectives and metrics (for example, a best-in-class concept regarding controversial weapons manufacturers is evidently not sensible). We acknowledge that a significant proportion of assets are still invested passively without ESG considerations and therefore best-in-class is considered a good step. However, we consider best-in-class a stepping stone and therefore not ultimately sufficient. Furthermore, asset owners should not be paying higher fees for best-in-class products, which are essentially just offering risk management.

<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>

ENTER RESPONSE HERE

<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>

No. In the same way as ‘Credit-related thematic focus’ would not be an appropriate product description. ESG would need to be defined as a broader sustainability term not a risk management framework.

<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>

ENTER RESPONSE HERE

<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>

No. The definition of the term ‘impact’ is too contentious to be used in the way it is here without differentiation. While the GIIN definition is widely used, it clashes with the ‘adverse impact’ terminology used by EU legislation. ShareAction strongly believes that before considering (and advertising) impact in a GIIN sense (i.e. changing outcomes), investors need to comprehensively account for their adverse impacts (outcomes) in the sense of the SFDR.

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<QUESTION_34>

Question 35: Do you believe that “Proxy Voting, Engagement, and Stewardship” is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_35>

No. ShareAction strongly believes that Stewardship (voting and Engagement are elements of stewardship) can never be considered a ‘feature’, but is essential to any investment activity, whether marketed as ‘ESG’ or not. It is not clear to us why stewardship should be any less essential to CFA Institute than ethical behavior of investors. Just as CFA Institute would not consider ethical behavior as a product feature, it should not do so regarding stewardship. Again, we acknowledge that stewardship activity is often more developed on ESG funds, but consider this poor practice and marketing funds for their stewardship activity would enforce this problem.

<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>

No. While we agree that the terms are used widely in the marketplace, they are neither useful nor 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>

No. We do not agree with the concept of 'ESG related needs'. Certainly, investors have objectives that go beyond risk and return. In ShareAction's view, attempting to condense all possible objectives into a template misses the point of investor preferences. The focus should be on general transparency of methodology and terms.

<QUESTION_40>

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

<QUESTION_41>

No.

<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>

No.

<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>

ENTER RESPONSE HERE

<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>