

**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](mailto:standards@cfainstitute.org) by 5:00 PM E.T. on 19 October 2020.

### General Information (required)

<b>Respondent:</b> <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>	The Good Economy
<b>Stakeholder Group:</b> <i>(Please select the stakeholder group with which you most closely identify.)</i>	Service Provider
<b>Region:</b> <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
<b>Country:</b> <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
<b>Confidentiality Preference:</b> <i>(Please select your preference for whether your response is published on the CFA Institute website.)</i>	yes, my response may be published

## Consultation Paper Questions

### **Market Needs**

**Question 1: Do you agree that a standard is needed to help investors better understand and compare investment products with ESG-related features?**

<QUESTION\_01>

Yes. We consider that a Disclosure Standard which is fit for purpose and accepted across the industry would be an extremely valuable addition to the industry.

<QUESTION\_01>

### **Terminology**

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

<QUESTION\_02>

The use of the word “feature” makes good sense, and is valuable in distinguishing investment products from ESG components.

We have some concerns about the use of the term ‘ESG-related need’. Using the term ‘need’ could create confusion with an ‘environmental need’ or ‘social need’ (like a lack of affordable housing) – i.e. the scale/depth of an ESG problem. In the consultation, the terminology ‘need’ is defined with reference to investor needs, but an impact-led style would have to pay attention to E/S/G needs, rather than investor needs, as part of additionality/contribution considerations.

We suggest ESG-related aim may be a less conflicted term to use.

<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>

For consideration within the specification for bonds, we draw attention to the ICMA Social Bond Principles (<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf>) and the Loan Market Association’s guidance on sustainable lending (<https://www.lma.eu.com/sustainable-lending>). For consideration within the specifications within investment products, we draw attention to the Sustainability Reporting Standing for Social Housing (<https://thegoodeconomy.co.uk/resources/reports/UK-Social-Housing-Building-a-Sector-Standard-Approach-to-ESG-Reporting-May-2020.pdf>) while niche we feel it important to flag as an example of a sector-specific ESG disclosure standard. We also note the proliferation of standards,

including work by the UN to develop standards for a range of different products, the following link provides some useful content: <https://gsh.cib.natixis.com/our-center-of-expertise/articles/from-sustainability-reporting-standards-to-impact-assessment-methodologies-tools-are-proliferating>

<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>

Yes. This is where investors need clarity. We believe investors want to understand the nature of the product their money is placed in. There is a risk that strategy activity can be hidden behind firm-level disclosure which could lead to greater levels of confusion and distrust.

<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. We believe that if a product is marked as ESG, then disclosure should be required. Cherry picking disclosure would be confusing for users of the standard and could also degrade the validity of the standard. If there are specific instances where disclosure on an ESG product appears to be defunct, for example a closed fund no longer open to investment, then you could consider a comply or explain option for extenuating circumstances (we would recommend there is a defined list of these circumstances, to avoid inappropriate use of the option).

<QUESTION\_06>

## **Design Principles**

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

<QUESTION\_07>

Yes

<QUESTION\_07>

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

<QUESTION\_08>

In principle, yes. Seeing a draft of the form and test answers is the only real way to determine if the design principles will be effective. Open ended answer formats are probably necessary but could result in confusing and very varied information. It may be that the standard needs to provide careful guidance on amount and style of content to be provided.

<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 disclosing entity should be clear about how many products they have registered under the standard, and how and where they store their disclosures. On balance though we think prescribing a single document may not be helpful for some investors. We suggest a common sense approach is then taken as to how each disclosing entity tackles presenting their disclosure. Where ESG products are very different, perhaps different asset classes with information in different areas of a website, a client is less likely to want to compare them directly and putting all disclosures in one document could be confusing and unhelpful. However, for other investors having all ESG products presented together may make more sense to their business and the needs of their clients.

<QUESTION\_09>

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

<QUESTION\_10>

Yes. However, thought needs to be given on how to ensure the quality of the independent examiners. Would the CFA need to run a verifiers accreditation programme?

<QUESTION\_10>

**Question 11: Should independent examination be required, or should it be recommended as best practice but ultimately left to the discretion of the asset manager?**

<QUESTION\_11>

We believe it would be hard to make mandatory in the first instance, but more likely to be market driven. The standard of verifications needs to be such that a benefit is evident for investors and clients

and as such they become a desired aspect. Again this links to quality of verification, and what role the CFA can play in ensuring verification is meaningful and good value.

<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>

ii. Design and implementation.

If only design is verified, then clients/prospects must fully understand the limitations of any verification. It is quite possible a disclosure could be verified and in fact the investor is still not implementing the stated ESG approach. This would reflect badly on the verifier and the standard, even though no breach had occurred. Over time, such incidences would degrade the purpose of verification and the role of the disclosure.

On balance therefore we believe if verification is to take place it must be on both the design and implementation. This will protect the credibility of the disclosure standard and ensure that a verification is serving a useful function.

<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>

Consideration should be taken of how well the proposed disclosure guidelines fit with alternative assets and private/venture if the disclosure standard is to feel relevant to these market areas too.

We also think it is important that mitigation steps are disclosed in the event an ESG-related risk/issue does materialise, where a holding is directly impacted by an issue.

<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>

We consider the SDGs a very important and relevant framework. However, we think the CFA should be guarded against introducing general disclosure requirements which may lead to spurious SDG alignment

simply to meet disclosure expectations, and thus contribute to a growing issue of rainbow washing. We suggest SDG alignment is only requested as a feature specific, not general expectation, where a fund or strategy has been designed with explicit intent to align with SDGs. We also request that where disclosure relating to SDGs is included, the Standard requires evidence of how the contribution to an SDG is measured, and that reference is given to the use of other standards relating to impact measurement and management (e.g. IFC Operating Principles for Impact Management, or the IMP). This will help ensure alignment to wider market efforts seeking to ensure impact integrity in the financial markets.

<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>

Yes, in principle. Again, we think a strategy specific approach is required rather than an all product requirement. Where such additional disclosures are relevant to the ESG features of a product, then addressing the expectations of the EU requirement may be useful.

<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>

Additional details which are applicable to alternative assets/private/venture capital would be welcomed.

<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>

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>

The norms based screening description could be extended with examples.



We have concerns about two of the screening examples given: the use of the example of ‘child labour’. Child Labour is not a values driven choice (like alcohol or tobacco) but near-universally legislated against in terms of national labour laws. I.e. it’s a regulatory and compliance issue, not an ESG values based one. We also note that in some jurisdictions certain weapons investments have now been banned.

<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>

While we recognise that ‘best-in-class’ is the more established and familiar term in asset management, it can be hard to place a judgement on best in class that takes account of all the variables, and on balance we have a preference for the second name you suggest of ‘Positive ESG performance profile’.

<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>

Could disclosure requirements consider expectations that would also align with alternative assets/private/venture.

<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>

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>

We think the disclosure requirements could contain more detailed guidance on what information is required to define a theme. Thematic investing can be fuzzy and this can be confusing for clients/prospects, it is important that investors are clear about where the boundaries are drawn for their investment theme.

<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>

We have concerns that an ‘Impact objective’ may be equated with an impact investing product. We appreciate the distinction which has been drawn out in the consultation paper, but feel that in practice the nuance of this may be overlooked and investors disclosing impact objectives will label their product as an ‘impact investment’. If the disclosure standard is to include an impact label then we believe there is an opportunity to help drive higher standards of disclosure and evidence in this area. There is an opportunity to require disclosure on how an investor is assessing their contribution to a change in environmental or social outcomes. The Disclosure Standard could direct investors to the IFC Operating Principles of the IMP for guidance.

<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>

The definition does not address how the Disclosure Standard defines additionality versus intentionality. Additional impact is referred to, but additional is being introduced for the first time within the document. We would recommend the definition is more precise in the nature of what creates impact. The Alignment section for this feature makes no reference to the Impact Management Project, which we would have expected. Again, we flag the importance of any disclosure relating to impact being very clear about the approach for measuring contribution and the importance of referencing the standards used to calculate any contribution (e.g. IMP, or other). We also highlight there should be an expectation for any impact disclosure to include assessment and reporting.

<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>

We think the term priority ranking requires more explanation and guidance on how this might be done in practice.

We are unsure what is meant by ‘Methods by which the product intends to achieve the stated impact objectives’. Is this referring to something other than an investment, perhaps shareholder engagement? Further explanation would be helpful.

There is no reference to disclosing how a product with impact objective features actually responds to E/S needs, rather than objectives which may be arbitrarily set by the investor. This is addressed in the typology of investors in Table 2 but we think should also be addressed in this section.

<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>

ENTER RESPONSE HERE

<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, notwithstanding our prior suggestions for improvements.

<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>

ENTER RESPONSE HERE

<QUESTION\_40>

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

<QUESTION\_41>

Needs 3, 4 and 5 imply the creation of positive impact. This raises concerns for us in the integrity of any claims to sit in these buckets without clear evidence. In housing, as an example, an asset manager can buy a portfolio of social housing properties and claim they are having a positive impact because it is social housing. They would probably state an 'impact objective'. However, this does not mean they are in fact having a positive impact – there is no additionality or contribution to positive outcomes inherent in such activity. Much depends on their engagement as an asset owner/landlord and whether focus on outcomes – which many don't. Where impact is implied, we need to drive up standards of impact measurement, management and reporting as well as ESG report otherwise will see overclaiming. We draw attention again to the specific housing model on impact

(<https://thegoodeconomy.co.uk/resources/reports/UK-Social-Housing-Building-a-Sector-Standard-Approach-to-ESG-Reporting-May-2020.pdf>).

<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>

We consider that D5 could also have a dot. For example, a housing investment theme could also be seeking to solve a social need for more affordable housing. We highlight again, that if such a claim were being made it would be important that an investor can point to the standards and approach they use to measure and manage such impact.

<QUESTION\_42>

## **Users and Benefits**

**Question 43: Do you agree with the description of user benefits? Are there any benefits that should be added or deleted?**

<QUESTION\_43>

Yes, we agree with the stated benefits

<QUESTION\_43>

**Question 44: Do you agree with the terms used to define the users of the Standard? Are there any terms we should include, or avoid using?**

<QUESTION\_44>

We welcome the inclusion of impact in the spectrum of ESG investing, however we think language associated with any style of 'impact' investing should be very carefully implemented and may require additional levels of explanation and guidance to ensure appropriate use. This is an area which is newer in the market, and also newer to a lot of investors. It is therefore open to greater levels of misunderstanding and misuse, which could increase confusion. As indicated previously we encourage the new Disclosure Standard to direct users to existing impact guidance such as the ICF Operating Principles and the IMP.

<QUESTION\_44>

**General Comments: Please enter general comments below.**

<GENERAL\_COMMENTS>

ENTER RESPONSE HERE

<GENERAL\_COMMENTS>