

**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>	Tricio Investment Advisors Limited
<b>Stakeholder Group:</b> <i>(Please select the stakeholder group with which you most closely identify.)</i>	Consultant or Advisor
<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 think that is very important as there is a risk that every investment product provider will say there are some ESG elements in their products. While this will increase choices for investors, it can also confuse, especially if certain product providers only try to have the ESG label to increase sales without truly articulating the relationship of the investment process with the outcome. In Europe, the MiFID II regulations require good product governance practice. Having a disclosure standard for ESG-related features will only help providers, advisers and wealth managers to meet this regulatory requirement.

<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>

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 prefer the disclosure-based approach as that requires all investment product providers to be more rigorous in their product development and governance process, without trying to do their jobs in designing the product. It also reduces the risk that the CFA Institute is favouring a particular ESG approach if the standards become too prescriptive. Lastly, a disclosure-based approach allows

investment product providers to continue to be innovative within pre-agreed boundaries. These boundaries will provide a framework to ensure that any innovations are meant to match the needs of investors, rather than just appearing to be different from other ESG products.

<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 do not feel that disclosures are needed on the firm level. Nevertheless, we propose that the disclosure standards should be encouraged to include an explanation on the broad principles/philosophy adopted by the firm on ESG, and how that is linked to the product design and management process.]

<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>

We think for consistency and communication with the investor, an asset manager should apply the Standard to all their investment products with ESG-related features. The manager can be prevented from "picking and choosing" the products to apply the Standard for marketing purpose. It also means that investors can have a better assessment on all ESG investment products from a product provider, without having to guess why some are not following the disclosure standards.

<QUESTION\_06>

## **Design Principles**

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

<QUESTION\_07>

We support the principles, especially on being simple, precise and unambiguous. There are challenges in setting up the right definitions, but they need to be met to make sure the standards work for the investment industry and end investors.

<QUESTION\_07>

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

<QUESTION\_08>

We agree with the design principles. In particular, the principles are designed to help the asset manager/product provider to communicate with end investors. The ability to rephrase the disclosure requirement as open-ended question is particularly useful for advisers and consultants who are working for end investors in looking at different products with different ESG features.

<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>

It will be easier for investors and their advisers to see all information in one single document. The challenge is to keep this document relatively short, precise, user-friendly with enough information to help to make decisions. Therefore it may be a good idea to move some of the disclosures to some appendices. Bear in mind also that the document should be readily accessible and navigated using online technology, including possible real-time update on certain information to be disclosed.

<QUESTION\_09>

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

<QUESTION\_10>

While we can see how an independent examination can strengthen the credibility of the disclosures, we are concerned that will increase the cost to product providers, which ultimately could be borne by end investors.

<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>

Based on our response to the previous question, we support independent examination to be a best practice that is left to the discretion of the asset manager. We believe that there are good boutique asset managers who have outstanding ESG products and are willing to follow the disclosure Standards, but they cannot afford to pay for an independent examination. If an independent examination is required, it may shut these small but good managers out of the ESG market, leaving with just the big firms with the marketing budget to dominate the market.

<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>

Our experience in product development and investment management tells us that a product provider can easily make claims on the design in meeting different industry standards, and yet the actual implementation (including the investment process) does not reflect such claims. We are particularly concerned about ESG, as nearly all investment managers claim to have some products that meet such criteria. We are sceptical about such claims and would want to see proof of “walking the talk” in the process of the product provider. The independent examiner can help in this respect and give confidence to advisers like us.

<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>

ENTER RESPONSE HERE

<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>

The word “integration” should be interpreted as ESG factors being integrated into traditional investment analysis and portfolio construction process. The integration does not mean a dominance nor a replacement of the traditional process. We believe this is clear for investment professionals and advisers, but we have some doubts on whether this may still be misinterpreted by end investors, especially private individuals who do not receive any investment advice. One possible word that can replace "integration" with is "enhancement", though the risk is that end investors may think that this feature will always have a positive impact on the risk-adjusted return of the investment.

<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>

See response to the question above. We think there is a risk that individual investors who receive no investment advice may misunderstand this.

<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>

Despite some reservations on the word “integration”, we think that the feature is quite clearly defined.

<QUESTION\_18>

**Question 19: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (A)? Are there issues that should be added, deleted, or modified?**

<QUESTION\_19>

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>

We believe this is clear and appropriate. This terminology has been used by many fund managers and index providers in constructing portfolios etc. and the proposed description matches what many end investors have understood

<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>

We do not think there is a need to distinguish the two types of screenings. The processes are essentially the same: having a set of criteria in what types of companies/securities to be excluded in the portfolio. Both types of screenings result in reducing the universe of securities that can be included in the portfolio. Both are trying to make sure investors' objectives of not investing in certain types of companies, even though the criteria may be different.

<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, we think the definition is laid out clearly and has captured most of the practices adopted by investment managers, end investors and their advisers.

<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 is a minor point, but it would be useful to point out that the exclusions based on similar norms or principles may be different between different asset managers. One example is whether nuclear industry is seen as reducing CO2 emission (positive for climate) or generating wastes that are expensive to clean up (negative for environment). Different managers can end up with different views, especially if the norm itself is not very explicit or clear on this.



<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" has the advantage of being simple. However, it may also mislead end investor in believing that the features will always be the best in terms of ESG features. The alternative, "Positive ESG Performance Profile" is more in line with the detailed definitions but sounds overly technical. Another possibility would be "ESG performance tilt", which has been referred to in the notes in the table for Feature (C).

<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>

For many end investors and perhaps even for some fund managers, features (A) and (C) seem very similar. The definitions provided in the consulting paper have made that clear that they are different, and we support the distinction. A fund manager who is integrating ESG in their security selection, portfolio construction and risk management process (Feature (A)) will have a different process than one using Feature (C), who will be focusing more on some ESG metrics of the company. The end outcome could be very different for end investors. On this basis, we think that Features (C) should be treated as a distinct feature.

<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>

We think the definition for Feature (C) is quite clear for investment professionals. It may take a bit of explanation to end investors between Features (A) and (C), so some examples in the final document to distinguish both could be helpful.

<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>

We think the definition covers the most critical areas for this feature pretty well.

<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>

Among all the definitions, this feature (and Feature (E)) are probably the easiest to understand by end investors, especially with rapid growth in products in the renewable energy and green sectors.

<QUESTION\_28>

**Question 29: Do you agree Feature (D) is distinct enough, particularly in the types of issues to be addressed by disclosure requirements, that it should be separate from other features? If not, please suggest the feature with which it should be combined.**

<QUESTION\_29>

Yes. It makes a distinction between Features (E), where the latter seeks more specific impact on the society and other stakeholders.

<QUESTION\_29>

**Question 30: Is Feature (D) clearly defined? If not, please explain how the definition could be made clearer or more precise.**

<QUESTION\_30>

Yes, it is generally clear. Notably, the definition covers some of the shortcomings or consequences of this feature that are typically misunderstood or not understood by end investors. The shortcoming of this feature, namely that the companies' other ESG credentials may not be taken into account, is important and we are pleased that is being considered.

<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>

A possible improvement in the definition is to make clear that some products could invest in only one theme, some invest in several themes, and that some products may choose to change the themes on discretion by the manager from time to time.

<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>

It is generally clear. Even though end investors will be more familiar with the term "Impact investing", the use of the word "Objective" is more appropriate as it gives a clear distinction between intention and action (the description is more on intention).

<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>

We think this definition is clear.

<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 disclosure covers the key issues relating to this feature. We are pleased to see the inclusion of the requirement that the objective should be measurable, especially since many investments seek social impact but lack measurable metrics to tell investors what to expect on the investment outcome.

<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>

While the name is clear, it is long compared to some more commonly accepted terminology like activist investments. We think the simple words “ESG stewardship” covers all the key approaches and activities undertaken by managers who adopt this feature in their investments. It is beneficial to distinguish this with the more general responsibilities of a fund manager in proxy voting and management engagement (see below), hence we propose to add the ESG words in front.

<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>

There is a general argument that all types of investments, regardless whether they have ESG features, should be managed responsibly with the manager actively using their proxy votes, engaging with management with stewardship principles in mind. It is essential to be clear in the definition that such actions are to affect the behaviour of the companies on the ESG front. Hence our suggestion in the previous answer in amending the name of the feature.

<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>

Despite our comments in the above two questions, we think the detailed definitions are quite clear and well laid out.

<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>

We think the feature has addressed the most important issues already

<QUESTION\_38>

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

<QUESTION\_39>

There can be many other ways to classify all ESG related features for different investment products. The CFA Institute has taken a very structured approach, considering how professional investment managers manage different ESG products. The resulting categorizations are broad enough that reflects some difference in the managers’ approaches to ESG investments, and yet sufficiently narrow to distinguish the key drivers and desired outcome of each approach.

<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>

If we use Prof. Meir Statman's framework of what investors want, all ESG related needs should meet one or more of the following benefits: utilitarian, expressive and emotional. The five ESG related needs cover these three general investor benefits in a relatively balanced way. One suggestion is to fine-tune the questions that define these five ESG needs to reflect more explicitly on how each need is mapped to in meeting the utilitarian, expressive and/or emotional need of investors. Such refinement helps advisers and wealth managers to understand better the likely profile of investors who may have a particular ESG need, improving the suitability assessment on an ESG product with an investor.

<QUESTION\_40>

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

<QUESTION\_41>

We think the five needs are clearly differentiated. However, we do not think they are mutually exclusive and do not need to be mutually exclusive either. For example, it is possible that an investor demands the investments to follow his/her personal beliefs and values, and at the same time looking for the investments making a measurable contribution to society. Whether it is possible to find an investment product that meets both needs, and whether such products can produce the right outcomes meeting both needs, is a separate question that the adviser or consultant needs to manage with the end investor.

<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>

Need (2) can be met with Feature (F) too, if the manager uses the proxy voting, engagement or similar measures to make sure the company will not do things that violate the investors' principles especially in future, e.g. to be carbon neutral.

<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 broadly agree, especially for investors, consultants and advisers. We strongly believe that the proposed disclosure standard can help product providers, financial intermediaries and distributors to meet the product governance regulatory requirement under MiFID II in the EU (and similar regulations in the UK)

<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>

We applaud the efforts of the CFA Institute to try to address a vital issue in the growing world of ESG investments. We think ESG investment is here to stay, and the industry must collaborate to make sure that the product provider, investment manager, consultant, adviser and end investors are using the same language on ESG investments. We need clarity and transparency in communicating the outcome of the ESG investments to end investors, so they can make the informed decision before investing the product based on whether the outcome of the products can genuinely meet their ESG needs.

<GENERAL\_COMMENTS>