

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>	Vivien Teu Founder & Managing Partner Vivien Teu & Co LLP
Stakeholder Group: <i>(Please select the stakeholder group with which you most closely identify.)</i>	Service Provider
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>	Asia-Pacific
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>	Hong Kong SAR, China
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>

Yes, just as GIPS was key in establishing industry standard on presentation of investment performance, there is need for an industry standard on disclosure of ESG-related features in investment products, for transparency and comparability.

<QUESTION_01>

Terminology

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

<QUESTION_02>

The term “ESG Matters” may be further clarified, to illustrate referring to investing with reference to the performance or outcome of an investee or a portfolio relating to the affairs, situations or topics related to environment, social or governance issues.

<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>

Table 1 may be considered as helpful not in the examples given (which are in any case not exhaustive), but rather in clarifying the different types of ESG-related regulations, standards, labels and initiatives. Still, some of these regulations, standards, labels and initiatives are overlapping or fall to be relevant for more than one type (for example, the Impact Management Project’s impact classes). To be further instructive, an alternative approach is to further clarify how each of these types of regulations, standards, labels or initiatives would be relevant or relate to the Standard. The Standard could elaborate on how the Standard is expected to fit with regulatory specifications for investment product disclosures, and/or does the Standard expect specific disclosure on one or more of these other types of standards, labels or initiatives, as relevant?

<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>

A disclosure-based approach should be preferred over a prescriptive-based approach, so that the Standard does not restrict what an ESG investment product must be or must achieve, thereby allowing flexibility for different investment approaches. However, while not being prescriptive in how, the Standard should be specific in what disclosures should be made, to achieve 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, in focusing on product-level disclosures, the Standard will acknowledge and provide flexibility for an investment firm to have different ESG investment approaches or types of ESG investment strategies, instead of requiring an investment firm to have a specific ESG investment approach to fit all its products or portfolios (although ESG risk management may be increasingly expected as baseline requirement or part of fiduciary duty).

<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>

The Standard should apply to all investment products with ESG-related features, whereas an asset manager will not need to apply the Standard to investment products with no ESG-related features.

<QUESTION_06>

Design Principles

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

<QUESTION_07>

Yes, agreed with the design principles to use simple, precise, unambiguous terms that are aligned with terms well adopted in the sector and familiar to the industry.

<QUESTION_07>

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

<QUESTION_08>

Yes, agreed with the design principles for the disclosure requirements, intended to outline expected disclosures but not prescriptive.

<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>

In requiring expected disclosures (the “what” but not “how” of disclosures), the Standard should provide investors meaningful and comparable disclosures of ESG investment products. However it may not achieve the intended purpose if the expected disclosures may be given in different forms or spread across multiple documents. The Standard may perhaps consider developing a template or recommended form for disclosures, similar to the practice of the UCITS’ Key Investor Information Document (or the Key Facts Statement in Hong Kong) or to recommend or propose disclosures to be made within such key document to be provided to investors.

<QUESTION_09>

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

<QUESTION_10>

Agreed with the design principle for independent examination on individual investment product instead of on the asset management firm. Disclosure should be made regarding independent examination. The proposal of independent examination is desirable to provide more assurance, and should be recommended as best practice that should apply to both design and implementation disclosures.

<QUESTION_10>

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

<QUESTION_11>

Independent examination should be encouraged or recommended as best practice, but allow the asset manager to determine whether independent examination may be undertaken, and if not, to explain why independent examination is not feasible or cannot be performed. The emphasis may be on clear disclosure regarding independent examination.

<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>

This may depend or differ subject to the investment strategy of investment approach. As above, the emphasis may be on clear disclosure of independent examination, whether it examine disclosures relative to design and/or implementation (or explanation as to why there is no independent examination).

<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>

Agreed with scope of general disclosure requirements; one comment / suggestion is to clarify “description of any monitoring and review procedures to evaluate the investment product’s alignment with its stated investment objectives” (referring to internal processes of ongoing monitoring or review?) vis-a-vis “whether the investment product has been independently examined”.

<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>

Alignment with policy goals such as the UN SDGs may be more relevant for some investment products / investment strategy/approach than others, and therefore may be regarded not to be appropriate as a general disclosure requirement, but a feature-specific disclosure requirements (for impact funds). However, given the urgency of certain policy goals, a possible approach could be to require general disclosure on whether an investment product meets certain “baseline” requirements – such as for example, ESG risk management (increasingly expected as part of fiduciary duty), no adverse impact / “do no significant harm” (such as under the EU SFDR), meeting certain mandatory human rights standards (align with UN Global Compact), or assessment against the SDGs, and if not, to explain how these are not relevant.

<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>

See response to Question 14.

<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>

“ESG Integration” is a term the asset management industry is getting accustomed to using for investing taking into account ESG-related factors to increase return or decrease risk, to enhance the portfolio’s performance. It may be meaningful to add specific clarification that this is distinct from ESG risk management which may be increasingly expected as part of fiduciary duty for any investment manager in managing any investment product or portfolio.

<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 Question 16.

<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>

See response to Question 16.

<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>

Agreed.

<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, however, given the urgency of certain global policy goals, how about certain expected or mandated “exclusions” for all investment products, which may apply under existing or developing regulations? It may be worth considering what “baseline” requirements the Standard could seek to establish, on the one hand, and on the other, to clarify that “ESG-related Exclusions” would refer to ESG products that adopt (other) exclusions or besides those mandated.

<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>

Both “negative screening” and “norms-based screening” can fall under this feature, however for both of these, please see response to Question 20, to consider clarifying regarding any “baseline” requirements for investment products.

<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>

As noted in the response to Question 20 (and Question 21), suggest clarifying that this feature should go beyond complying with exclusions required by laws and regulations (as those should be part of “baseline” requirements of all investment products under the applicable laws and regulations).

<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>

Subject to responses to Questions 20, 21, 22.

<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>

As this feature or approach is “Best-in-Class” of certain one or more ESG metrics, suggest clarifying it is referring to “Selected ESG Metric(s)”, for example “Selected Best-in-Class Metric(s)”.

<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.

<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>

Yes.

<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>

Given the term “Best-in-Class” may be potentially mislead certain investors on the ESG merits of the strategy, consider adding disclosure requirement that the strategy or product only focuses on the selected metrics, and not on performance of other ESG factors or outcome, and may not provide an actual solution or outcome on an ESG issue.

<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>

Yes.

<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.

<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.

<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, however there may be overlap with Feature (C) or Feature (D), if selected “Best-in-Class” or “Theme” may also seek to achieve certain positive, measurable social or environmental impact. Is the focus on impact over financial return, such that “Impact Focus” may be more appropriate?

<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>

Is the emphasis on generating impact alongside financial return appropriate? Is there definite expectation of positive financial return, or would this category entail an investor accepting that financial return may be secondary to the impact outcome?

<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>

As appropriate, clear disclosure on the focus on impact over financial return.

<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, however this Feature should be adopted along with at least one other Feature that this feature seeks to achieve alongside.

<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>

No, this Feature should be adopted along with at least one other Feature that this feature seeks to achieve alongside.

<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>

If intended to be a distinct Feature, additional clarification to the definition on the expected goals or targets for engagement and stewardship.

<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>

Clarification on the ESG factors/goals or impact goals for engagement and stewardship.

<QUESTION_38>

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

<QUESTION_39>

Would adopting ESG market data or benchmarks be a distinct ESG-related feature, where the data or benchmarks fall outside the six features or may be unclear how it fits within one or more of the six features?

<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>

As investors are increasingly attuned to their values or ESG issues (environmental impact and social issues), this list appears to be comprehensive in taking into account potential investors' ESG-related needs.

<QUESTION_40>

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

<QUESTION_41>

Yes.

<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>

See response re Feature (F) in Questions 35-38; while the relationship of the ESG-related features and the ESG-related needs are identified in Table 3, it should be clarified that this may only be a starting point to narrow down the universe of products that may meet the needs, but which would require further specific mapping to identify whether a particular product of a specific ESG-related feature meets the specific ESG-related need of the investor.

<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>

Agree

<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>

Agree

<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

While this would certainly be welcomed in the investment industry as an important initiative for CFA to establish the Standard, as regulatory requirements on disclosures are expected from 2021 (EU) and already applicable in certain jurisdictions (for example, Hong Kong SFC disclosures requirements on green or ESG investment products), as well as an extensive body of standards, or other frameworks already present, as noted in the response to Question 3 above, it would be helpful for the Standard to further clarify how the Standard is expected to fit with regulatory specifications for investment product disclosures, and/or does the Standard expect specific disclosure on one or more of other types of standards, labels or initiatives, as relevant.

Given the fast evolving landscape and certain urgent policy goals, as noted above, the Standard could consider clarifying or requiring general disclosure on whether an investment product meets certain

“baseline” requirements – such as for example, ESG risk management (increasingly expected as part of fiduciary duty), no adverse impact / “do no significant harm” (such as under the EU SFDR), meeting certain mandatory human rights standards (align with UN Global Compact), or assessment against the SDGs, and if not, to explain how these are not relevant.

Thank you for the opportunity to comment and contribute on this key industry initiative.

<GENERAL_COMMENTS>