



CFA Institute

SURVEY OF CFA INSTITUTE MEMBERS ON LATEST ESG MATTERS

Views on the Integration of ESG Factors in Investment
Decision Making and Sustainability Reporting Standards
for Publicly-Listed Companies

November 2021





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Contents

Introduction	1
Survey Intent	2
Methodology	3
Executive Summary	5
Questions on Investment Manager Views for Integrating ESG Factors	5
Questions on Sustainability Reporting Standards for Public Companies (or Publicly-Listed Companies)	6
Survey Question Detail	8
Questions on Regulated Funds and Investment Managers in Addressing ESG Matters	8
Questions on Sustainability Reporting Standards and Practice by Public Companies	11



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Introduction

In September 2021, CFA institute surveyed a segment of its global membership to determine the latest views from its professional, financial analyst members on the duties of investment managers to integrate environmental, social, and governance (ESG) factors into their investment analysis and decision-making. The survey also asked respondents to provide views on the need for the development of formal government-backed standards for public company reporting on sustainability issues.



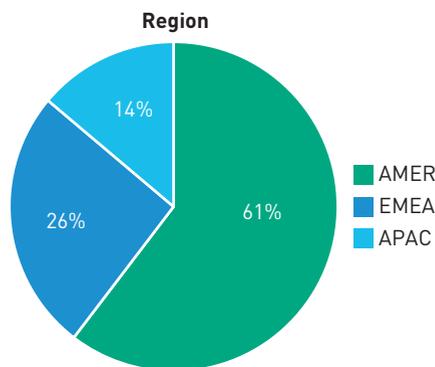
Survey Intent

Our survey comes as broad-reaching global shifts in regulatory policy loom regarding the role ESG factors will play in investment management and across the financial markets more generally. The purpose of the survey was to highlight the views of investors/members regarding corporate sustainability reporting and investment management practices related to ESG. Numerous regulatory initiatives are underway on a wide-ranging set of climate and other ESG matters, including whether regulators should require such ESG matters be incorporated into investment analysis and whether they will require public companies to report on ESG in their corporate reports. These survey responses are intended to inform the global debate by contributing the views of professional analysts and investment practitioners as regulatory initiatives evolve.

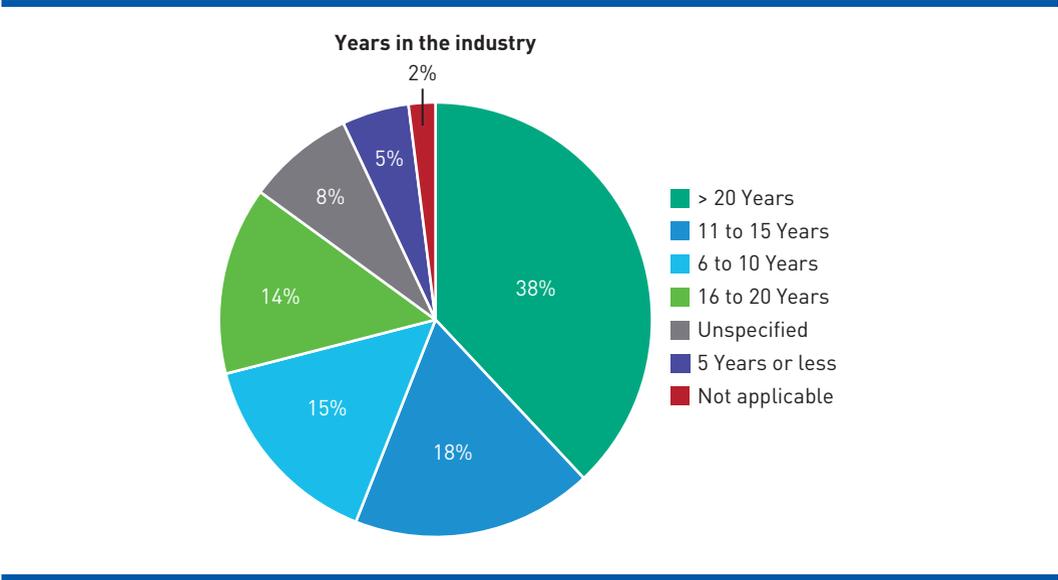
Methodology

Our survey, which was fielded during the last two weeks of September 2021, was sent to 30,000 CFA Institute members and CFA® charterholders. The survey received a total of 710 responses, which is a response rate of 2.4% and had a margin of error of $\pm 3.6\%$. The survey had a very high completion rate (meaning those who clicked the survey link completed it) of 93%.

In terms of regional responses, 61% of the responses came from the Americas, 26% came from Europe/Middle East (EMEA), and 14% came from Asia Pacific.



Of the respondents, 47% reported they had between 6 and 20 years of experience in the financial industry and another 39% reported they had more than 20 years of experience.



We note that in several cases where the survey questions presented topics that are highly nuanced, had potentially insufficient answer options and which had a majority of Not Sure results, we elected to exclude those from this report.



Executive Summary

Questions on Investment Manager Views for Integrating ESG Factors

CFA Institute fielded a range of questions to better understand investor/member views about the responsibilities and practices of investment managers in integrating ESG matters into their investment analysis and selection process. While some uncertainty persists, our survey respondents clearly seek flexibility in whether and how to integrate ESG factors based on client demands. Moreover, respondents strongly favor more information from investment managers about how funds that market an ESG strategy actually execute on such strategy in a way that supports the ESG labeling.

Integration of Financially Material ESG Factors into Investment Analysis. This question frames the issue of which ESG factors the investment manager might integrate. In this regard, a majority of respondents (48%) believe that the focus of any such integration is to consider ESG factors that are financially material to the investment decision. Roughly one in five respondents believed that ESG factors should not be integrated into the investment process.

Integration of ESG by Investment Managers Should Not Be Government Mandated. Of particular interest to professional investment managers is whether government regulators should mandate that such managers integrate ESG factors into their investment analysis. Collectively, nearly 80% of the respondents were opposed to a government mandate or believed that the decision on ESG integration should be up to the client in consultation with the manager. Comments in the survey indicated that this is a matter of the free-market process, independent professional judgment, and primacy of client preferences in such matters. Less than 20% of the respondents were of the view that a government directive should be made in this regard.

ESG Product “Truth in Advertising” Needed. Misleading claims or “greenwashing” has emerged as a growing concern among regulators and investors who are seeking an ESG style of investing. Complaints are growing that ESG-style funds and their managers are touting their skills in executing on an ESG investment strategy that are falling far short on such claims. Adherence by the investment manager to the ESG strategy and whether the actual portfolio holdings reflect that strategy are drawing increasing attention.

In short, the strategy is not being implemented or otherwise verifiable. Nearly two-thirds of respondents supported a globally consistent product disclosure standard to establish comparability and integrity of ESG-style claims.

Questions on Sustainability Reporting Standards for Public Companies (or Publicly-Listed Companies)

CFA Institute fielded a range of questions to better understand investor/member views regarding key points in the on-going global debate around whether and how corporate reporting should include information related to sustainability (i.e., environmental, social, and governance [ESG] matters). Key questions remain unresolved, including who should set standards, what they should include, and whether they should be mandatory or voluntary.

Mandatory vs. Voluntary Sustainability Reporting. The baseline question in the sustainability reporting debate has been whether such reporting should remain voluntary, or whether it should be required by government or regulatory mandate. For example, regulators worldwide have announced they would reconsider new policy approaches regarding public company reporting requirements, specifically as they relate to the risks and effects of climate change. By a wide majority, survey respondents supported mandatory reporting of sustainability matters. Respondents indicated that reporting on ESG matters should not remain voluntary and ad hoc as to what each public company discloses. It is also the clear preference of survey respondents that sustainability reporting follow a *consistent, global approach*, rather than fractional differences that can result from multiple jurisdictional approaches. Consistency, comparability, and standardized requirements are important to professional financial analysts.

Financial vs. Impact Materiality. Another baseline question concerning sustainability reporting rules is whether a public company should report on both the financially material risks that climate change and other ESG matters pose to the company's business (financial materiality) and whether the company's business, products, or services pose a risk to the environment and social responsibility (impact materiality). Some jurisdictions have mandated both, while others are still considering the various approaches. More than two-thirds (68%) of respondents felt the company should report on both types of material information.

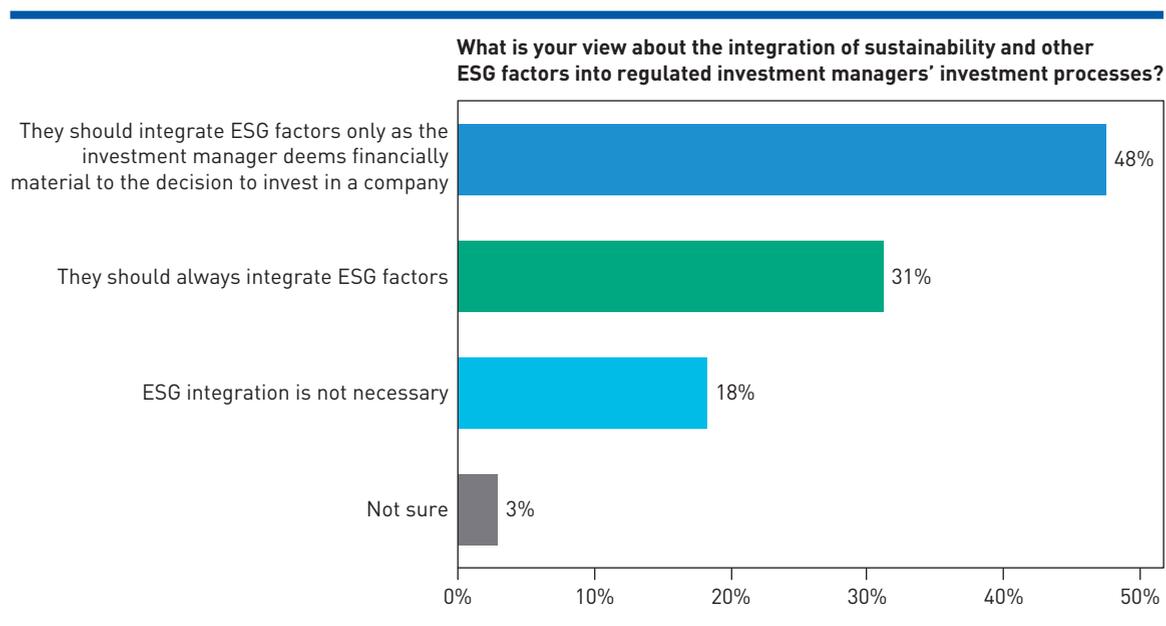
Adopt Formal, Government Endorsed Standards Before Making ESG Reporting Mandatory. Of particular interest in the corporate reporting debate has been whether formal government-backed standards should be a prerequisite for making such reporting mandatory. The response to this question was strongly in favor (nearly 70%) of regulators endorsing standards before mandating disclosures by public companies. The certainty of a consistent and formal reporting framework for sustainability information is important to professional financial analysts.

Create a Formal Reporting Standard: Consider but Do Not Simply Adopt Existing Private Sector Reporting Standards. The debate surrounding sustainability reporting standards has dealt extensively with the question of whether regulators/official reporting standard setters should simply adopt one of the existing private sector frameworks. Many stakeholders see the decades of work already completed by multiple private sector organizations as a sound starting point. Perhaps due to the number of different approaches to frameworks, and differing products, a high number of survey participants (30%) responded as “NOT SURE” to whether private-sector standards were sufficient or whether regulatory intervention was necessary. Most respondents (43%) prefer new corporate reporting standards on ESG matters that are created and enacted by the regulator or recognized standard setters.

Survey Question Detail

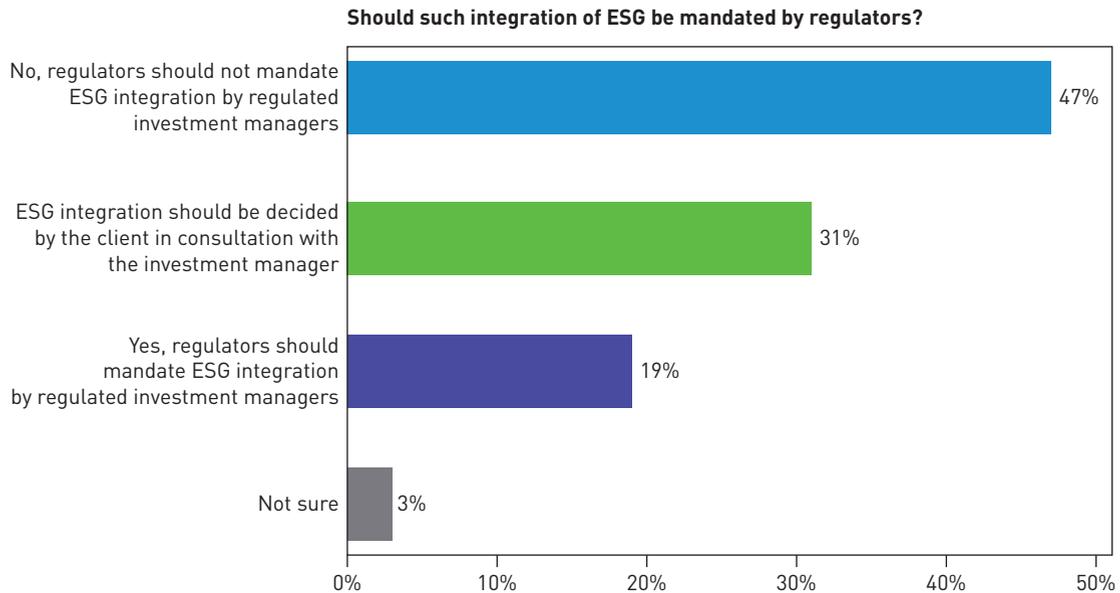
Questions on Regulated Funds and Investment Managers in Addressing ESG Matters

Q1



We fielded a range of questions to examine member views about the responsibilities and practices of investment managers in integrating ESG matters into their investment analysis and selection process. This initial question frames the issue of what the investment manager might integrate. In that regard, professional investors believe the focus of any such integration is to consider ESG factors only in cases in which it is financially material to the investment decision (48%). Two-thirds of respondents believed that ESG integration was either unnecessary (18%) or should be confined to financial materiality (48%).

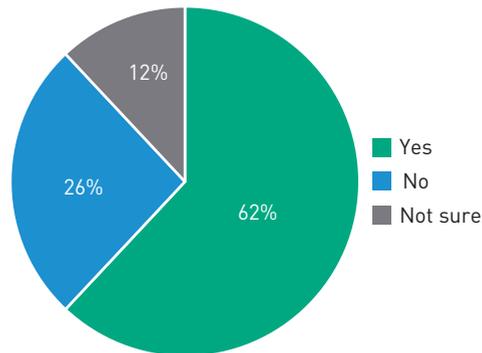
Q2



Of particular interest to professional investment managers is the issue of a government mandate. We asked whether the government or other market regulators should mandate that regulated investment advisers integrate ESG factors into their evaluation process. Nearly 80% of respondents said that the decision is up to the client in consultation with the manager (31%) or that it should not be mandated by government regulations (47%). Many respondents were of the view that this should be a matter of free market process, professional judgment, and primacy of client preferences in such matters. Less than 20% felt a government directive should be made in this regard.

Q3

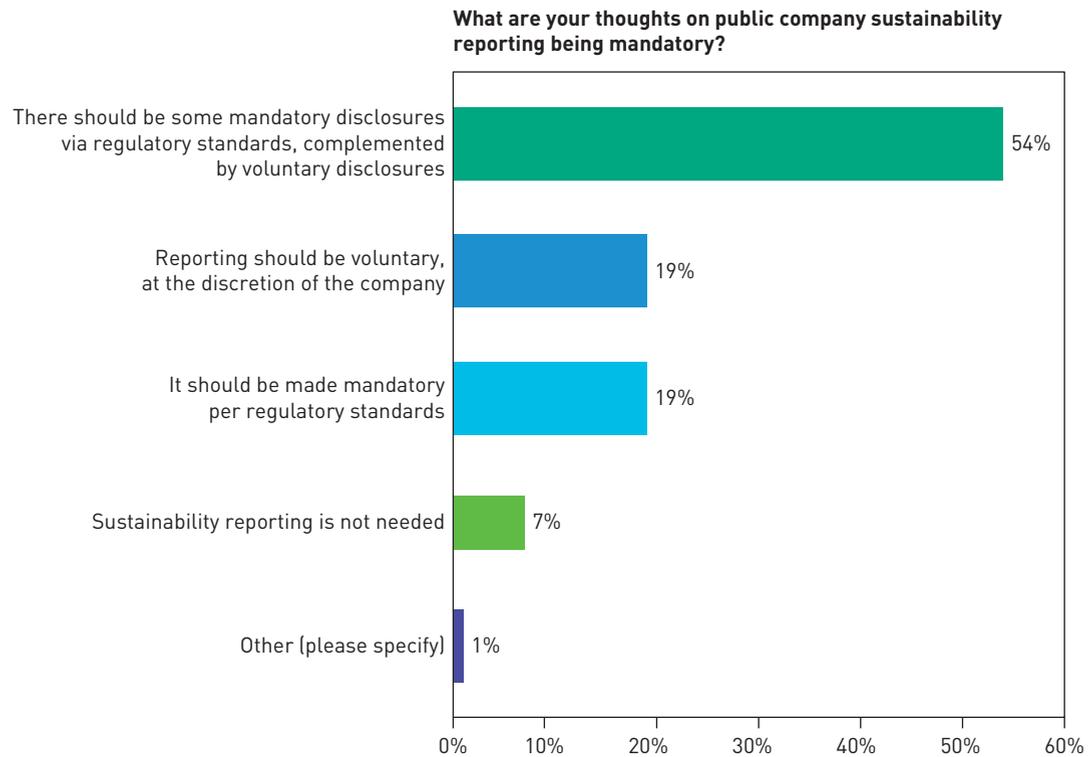
Would the industry benefit from a global investment product disclosure standard to help understand whether or how an investment manager uses ESG integration in their investment decision-making process?



Truth in advertising or so-called “greenwashing” has been a growing concern among investment services providers and users. In many instances, the ESG style is not actually being implemented or otherwise is not verifiable. Nearly two-thirds of respondents (62%) supported a globally consistent product disclosure standard to help with comparability and integrity of ESG-style claims.

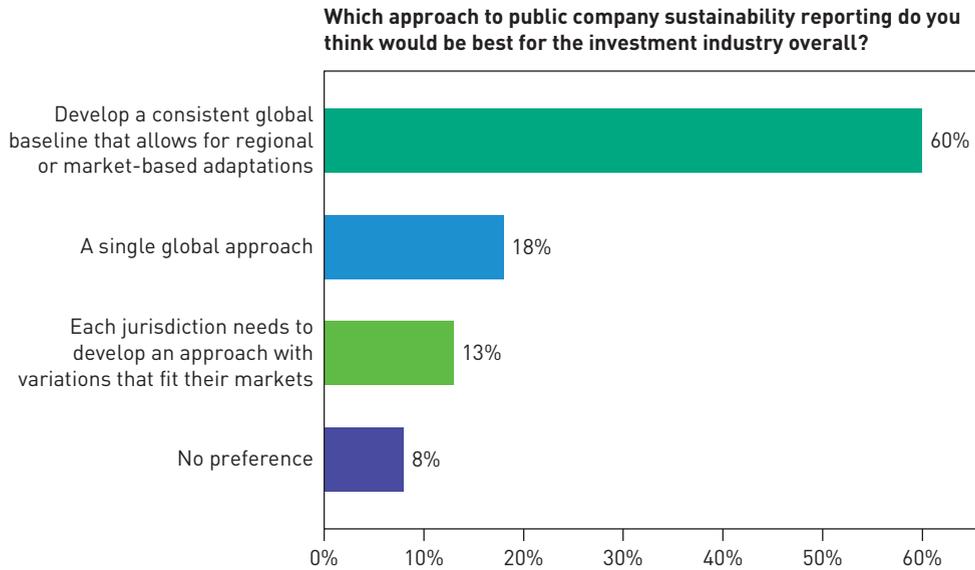
Questions on Sustainability Reporting Standards and Practice by Public Companies

Q1



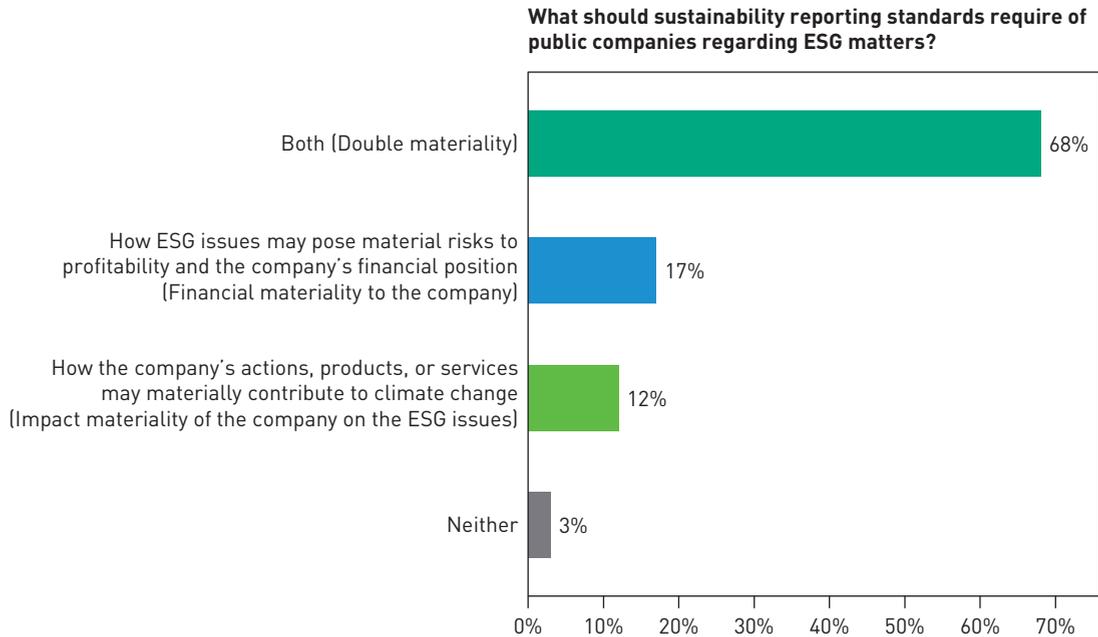
As a baseline question under this topic, we asked our investor/members whether sustainability (ESG) reporting should be mandatory or voluntary for public companies. By a wide majority (54%), respondents wanted minimum disclosures pursuant to formal regulatory standards of sustainability reporting with flexibility to supplement with voluntary disclosures. Only 20% believed that reporting on sustainability by public companies is *not* necessary.

Q2



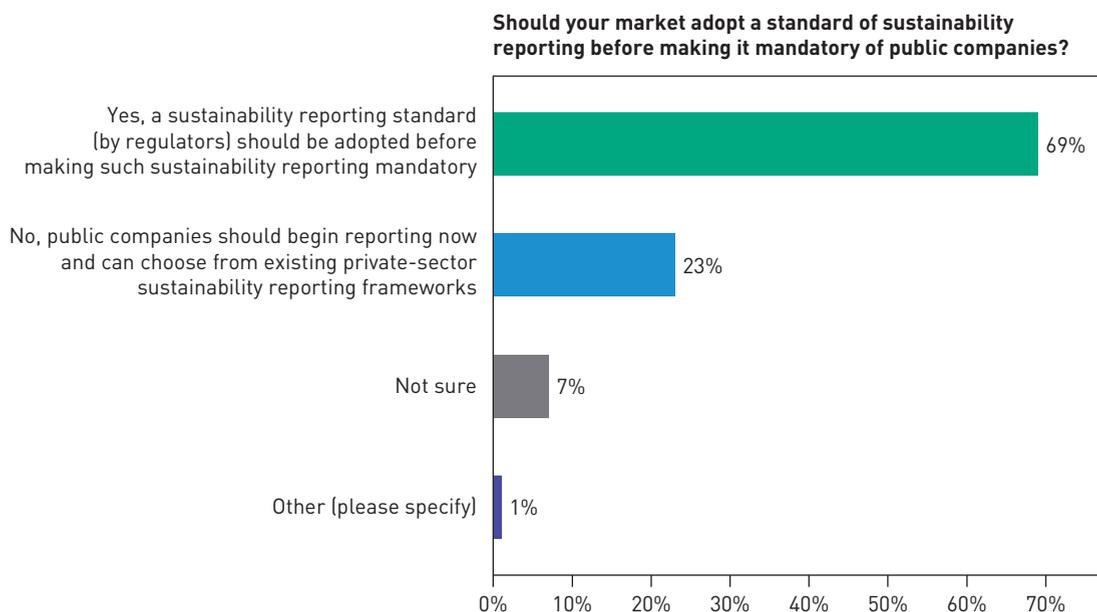
When asked about the best approach for the investment industry, our membership revealed a clear preference (60%) for taking a consistent, global approach to development and maintenance of a baseline set of sustainability reporting standards. Between having a single global approach or a global baseline with regional add-ons, nearly 80% seek some level of global consistency, and not to multiple approaches by jurisdictions.

Q3



One of the important questions concerning sustainability reporting rules and requirements is whether a company should report on the risks ESG poses to the company's business (financially material) or on the risks the company's business, products, or services pose to the environment and social responsibility (impact materiality). More than two-thirds (68%) of respondents said the company should report on both.

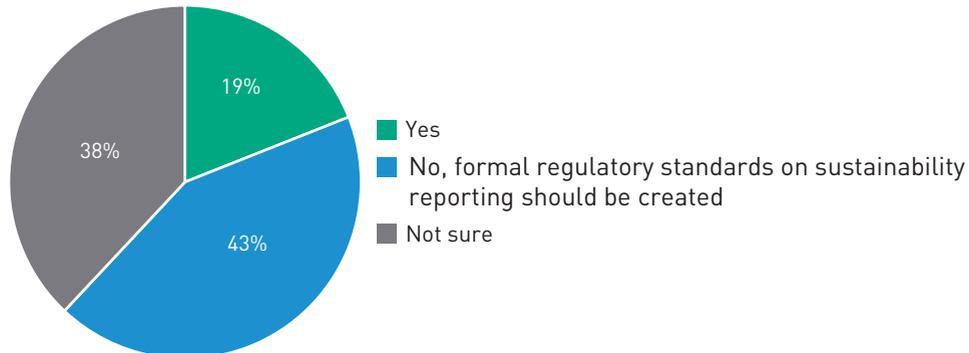
Q4



Of particular interest in the sustainability reporting debate has been whether formal regulatory standards for such reporting should precede the decision to make such reporting mandatory. The response to this question was strongly in favor (69%) of creating formal regulatory standards before mandating disclosures by public companies. The certainty of a consistent and formal reporting framework for sustainability information is important to professional financial analysts.

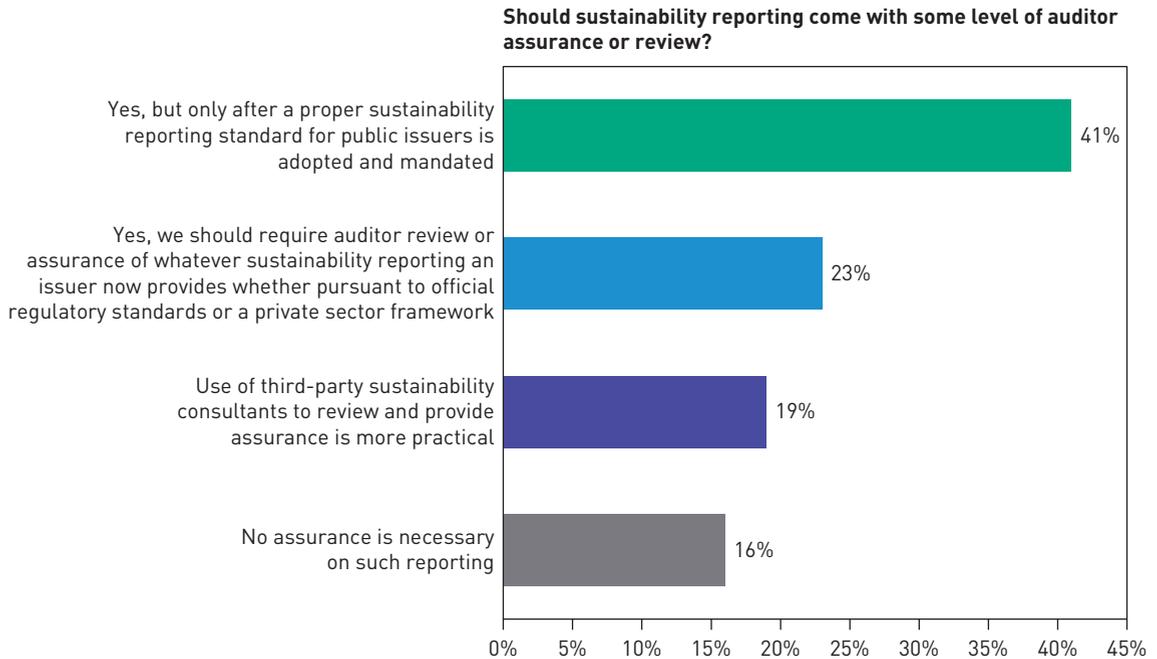
Q5

Rather than create a new sustainability reporting standard, should regulators simply select and endorse one of the existing private sector frameworks?



The debate around sustainability reporting standards has dealt extensively with the question of whether regulators should simply adopt one of the existing private sector standards rather than having regulators create a new standard. Many stakeholders see the decades of work already done with private sector standards as the place to start. Respondents to this survey took a different view, preferring sustainability reporting standards that are created and enacted by the regulator. We note the very high *Not Sure* response (38%) to this question, indicating the significant confusion still surrounding the multiple stakeholders, both private and regulatory, engaging in the debate over who should establish, oversee, and enforce corporate reporting practices relating to ESG matters.

Q6



Another key policy discussion around corporate sustainability reporting is the notion that such reporting should be subject to some level of auditor review or assurance. The issue has been whether a formal set of regulatory standards for sustainability reporting is needed that will provide the basis for a consistent review by auditors or other verifiers. Survey respondents opted strongly (41%) for having formal sustainability reporting standards before any audit requirement be invoked.

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