

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>	CFA Society Sweden
Stakeholder Group: <i>(Please select the stakeholder group with which you most closely identify.)</i>	Asset Manager
Region: <i>(If you are submitting as an individual, please select the region in which you live. If you are submitting on behalf of an organization and the organization has a significant presence in multiple regions, please select "Global". Otherwise, please select the region in which the organization has its main office.)</i>	Europe
Country: <i>(If you are submitting as an individual, please enter the country in which you live. If you are submitting on behalf of an organization, please enter the country in which the organization has its main office.)</i>	Sweden
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.

Currently it is very difficult for non-professional and even professional investors to understand what separates different ESG-labelled investment products in the same product segment from one another. The lack of standards, reliability, and comparability is exacerbated by the efforts by some of the major players in developing various ESG ratings, which when applied to the same security provide drastically different results, since their respective methodological approach to measuring ESG performance differs.

<QUESTION_01>

Terminology

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

<QUESTION_02>

No – they are all clear.

<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>

(The list provided in the Standard is comprehensive – no further suggestions)

<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.

A disclosure-based approach is more difficult to tailor to an individual situation or set of interests. Therefore, it will result in more comparable responses.

There is however a balance to be struck between comparability, objectivity, and user friendliness. It is challenging to simultaneously achieve comparable disclosures, for the disclosure requirements not to be so narrow as to (unintentionally) create a bias for/against some reporting parties, and for these to remain sufficiently nimble and digestible to producers and users of the disclosures.

<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.

At the end of the day, the product is where the invested capital ends up having an impact on ESG. In addition, firm-level disclosures could obscure lack of proper ESG integration on the product level. That said, Firm level ESG disclosures could be a useful addition to product-level disclosures]

<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.

All investment products labelled as having ESG-related features should be required to apply the Standard. Otherwise, the issue of comparability remains, and may even be reinforced, which would be counterproductive to the entire effort.

<QUESTION_06>

Design Principles

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

<QUESTION_07>

Yes.

As a practical illustration though, and to ensure the Standard fulfills its purpose even better, it might also be helpful to include a comprehensive list of definitions of ESG-related terms more CFA Institute may also consider contributing definitions of ESG-related terms in connect

<QUESTION_07>

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

<QUESTION_08>

Yes.

<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>

Yes.

Ease of use for the consumer of the investment product is important, and this is compromised if the disclosures were to be spread among several different documents.

<QUESTION_09>

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

<QUESTION_10>

Yes.

Independent examination strengthens the credibility of the Standard and its application on investment products.

<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>

It should be required.

<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>

The independent examiner should examine both the design and the implementation. There are numerous examples across different asset classes of well designed ESG integration in products, but with

poor implementation – and both are required in order to make a difference. Design alone makes no difference, and if examination of design only is required, then that will in effect provide an incentive to tilt the efforts toward design rather than implementation. That is not helpful.

<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>

No.

The investment universe should be describe, BOTH before and after applying any exclusion list.

The investment product's benchmark can be removed if it refers to third party ESG ratings and benchmarks.

As queried in question 15 below, the actual exposures to specific ESG risks needs to be disclosed. This is a sine qua non, and the single most important item to be disclosed.

<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>

No.

This is a choice of course – whether to be an aggregator of other standards, or to define a CFA Institute Standard. But we do not see it as a combination of the two, but rather a choice. CFA Institute has an opportunity to make a strong contribution by defining a Standard, whereas making reference to other frameworks, be it ESG and/or Impact-related, dilutes and confuses.

<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.

This is the essence of ESG analysis and Environmental and Social Impact Analyses (ESIAs). The actual and potential ESG risk exposures are at the heart of the matter, and the basis for all other ESG-related disclosures.

<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>

Yes.

<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>

Yes.

However, a set of tick boxes listing the examples cited could make it easier to compare how ESG integration is pursued in different products, and improve the readability of the disclosures.

<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>

Yes.

<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>

They should be separated.

Norms-based screening refers to norms, beliefs, or convictions rather than standpoints based on verifiable and objective data and facts.

Negative screening on the other hand can be defined from a purely fact-based perspective. Screening out products where investments are made in companies with business practices or activities with reputational risks and/or regulatory risks are more fact-based approaches, rather than norms.

Concerning differences in function, benefits and disclosure requirements, as close alignment as possible with the PRI and GSIA would be desirable.

<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>

No.

It blends negative and norms-based exclusions. What they have in common is that it concerns exclusions, but the basis for those exclusions differ. That distinction is important, so as not to promote a view of an exclusionary approach as based only on faith, values and norms.

<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>

Yes.

<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>

Yes.

<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>

Yes.

<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>

Yes.

<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.

<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>

Yes.

<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>

Yes.

<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.

<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>

Yes.

<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>

Yes.

<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>

Yes.

<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.

<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>

Yes.

<QUESTION_40>

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

<QUESTION_41>

No.

They are clearly differentiated. However, they are not mutually exclusive insofar as an investor may demonstrate several of these needs simultaneously. For example, an initial negative screening (need no 2) could be combined with a return motivated consideration of additional ESG matters assumed to affect the risk and return of an investment product (need no 1).

<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>

Yes.

<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.

<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>

Yes.

<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

ENTER RESPONSE HERE

<GENERAL_COMMENTS>