

**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>	CAPITAL MARKETS AUTHORITY
<b>Stakeholder Group:</b> <i>(Please select the stakeholder group with which you most closely identify.)</i>	Regulator
<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>	Middle East & Africa
<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>	KENYA
<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: ESG reporting in developing countries is yet to pick momentum. However, we agree that Uniform ESG Disclosure Standards will increase transparency and reduce investor confusion when it comes to ESG terminologies, reporting, investment objectives as well as the assessment of benefits, risks and overall impact by investors. However, it appears as if asset managers will mainly take the role to “define” what ESG is to investors. With their expertise asset managers should be able to analyze the Investment products, the value they bring to investors (and the investment world/economies), risks vs. return and how they are valued. Please consider including some elements to the conversation such as valuation of ESG products, risk vs. return, asset allocations, and how the impact of the ESG will be quantified by financial experts as well

<QUESTION\_01>

### Terminology

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

<QUESTION\_02>

YES: Examples are as follows

**ESG-Related need** has been defined as a benefit. They might need or want something (information) that will not necessarily benefit them.

**Asset Manager:** An entity that manages an investment product on their own behalf or on behalf of a client

ESG uses the words environment, society of governance. The use of the word ‘or’ may be misleading because ESG encompasses all the factors and not any of the three. Additionally, the use of the words ‘affairs, situations or topics’ appear confusing and should be clarified further.

ESG Matters be amended to define it as –

Affairs, situations or topics related to the environment, society and governance.

<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>

Add the following under codes and principles of investing

- Stewardship Code for Institutional Investors in Kenya 2017
- Code of Corporate Governance Practices for Issuers of Securities to the Public in Kenya 2015
- King IV Code of South Africa
- Consultation Paper on Sustainability Reporting by IFRS Foundation (Consultation ongoing to December 2020-Just for your attention)

<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. Disclosure based model is the most appropriate approach, especially to allow room for innovation by Fund Managers. The institute could consider widening the scope to develop a standard for issuers of securities as well

<QUESTION\_04>

**Question 5: Do you agree that the Standard should focus only on product-level disclosures and not firm-level disclosures?**

<QUESTION\_05>

No. ESG goes beyond just the product. To entrench the spirit of ESG responsibility, the firm should also be assessed on its ESG performance. The focus should be on the complete environment under which the product exists. There should be consideration given to the firm especially on its leadership, sustainability considerations and community engagements. A focus on the product only misses out on the spirit of ESG

<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 with ESG related features should apply the standard to facilitate uniformity and transparency.

<QUESTION\_06>

## **Design Principles**

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

<QUESTION\_07>

Yes. However, the role of the CFAI and expertise of CFAs, Asset Managers and the finance world in general should clearly come out in the risk return analyses so that the proposed standard can show this side of expertise as compared to all others in Table 1

<QUESTION\_07>

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

<QUESTION\_08>

Yes. Consider response (7) above

<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; Spreading disclosure across several documents creates an additional task of collating and comparing information, and the risk of missing out on some information

<QUESTION\_09>

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

<QUESTION\_10>

YES; Consider adding the criteria for determining the independent varifiers

<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>

No. It should not be required but should be recommended as best practice. This would help with reducing the cost of compliance and to accommodate jurisdictions where ESG has just started gaining traction

<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>

Option (ii): The examiner to examine both the design and implementation of the product. Let the standard not focus on disclosures for ESG only. It is an area where benefits, risks and impact are crucial. Implementation, therefore, must be examined

<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>

Yes. I agree with the Scope. Proposal for additions:

- Analysis of data to inform ESG reports, reviews and strategies
- Outcomes of the ESG activities and strategies
- Value to the investor cannot be deduced from this list. Please consider performance history of the product. What if the investment product was examined and deemed not to be ESG related, this needs to be disclosed; also
- The investment universe (prior to any exclusions) needs to be made clearer

<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>

Yes to both questions

<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

<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>

As is typical with ESG, this will need to be proven

<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

<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>

How this part will be disclosed in a way an investor can understand may be challenging especially in developing countries. Here they should also disclose exactly how the ESG-related factors are material to the risk and return of the investment as alluded to in the main definition

<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>

Yes, they are covered under the broader definition

<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

<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>

They should not disclose ‘A description of the asset manager’s investment universe prior to the application of exclusions’ to avoid a higher return vs ESG conflict when making investment decisions

<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 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>

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>

What makes a company 'Best in Class' will have to be distinct.

<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>

In a broader context; all the other features should have an ESG-related Thematic Focus to advance the ESG agenda across the globe

<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 I agree with the issues but please add the key outcomes and impacts of ESG targets

<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, it is clear

<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, the definition is clear but the definition can be expanded to include a change in outcome in governance matters, not just environmental and social as presented. Also, the differences between Feature A and E can be highlighted

<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, but these should include governance matters as well

<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>

Tie the name to ESG e.g. ESG Based Proxy Voting, Engagement, and Stewardship

<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, the definition is clear

<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, but on engagement, this should be expanded to include engagement with the Board of the investment.

<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, subject to additions as needs evolve

<QUESTION\_40>

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

<QUESTION\_41>

They are differentiated but not mutually exclusive

<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, but Regulators, Institutes and other standard setting bodies can use the Standards to recommend and encourage voluntary and uniform ESG reporting to Asset Managers in their jurisdictions/ to members

<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, I agree

<QUESTION\_44>

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

<GENERAL\_COMMENTS>

The consultation paper is well crafted and the objective if the CFAI and the request for our input is appreciated.

Some other factors to consider in this subject are:

- i) The differences in achievements in ESG in developed and developing countries targeted by the Standard;
- ii) How the disclosures go beyond surface level claims of compliance to attract investors
- iii) A survey is recommended targeted at ESG investors to find out the specific information they would like to be disclosed by asset managers and why

<GENERAL\_COMMENTS>