

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>	Genus Capital Management, Vancouver, Canada
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>	North America
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>	Canada
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, we believe that a standard will help facilitate the ESG conversation and continue to raise the importance of including ESG in all investment opportunities. Standardization of information will enable better comparison and support entities that authentically integrate ESG. In turn, this will encourage greater commitment from issuers.

<QUESTION_01>

Terminology

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

<QUESTION_02>

ESG Related Need: A benefit related to ESG matters seems very broad and maybe can be broken down further into sub-categories or explained more precisely.

Investment Product: Many investment managers including Genus intentionally position around 'services' rather than 'products'. Your definition of product probably somewhat narrowly captures this with 'strategies' but consider broadening the language to a more holistic sense of wealth relationship management.

<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 Sustainable Development Goals (SDGs) are mentioned elsewhere in the consultation paper, but not in this table. We use metrics aligned with SDGs to help organize and scorecard the net impact of our portfolios and benchmarks.

bcorporation.net and clean50.com are another two to explore

<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>

The disclosure-based approach provides investors with the information to make informed decision while still encouraging autonomy of decision making. We think the best role for CFA Institute is guiding industry to use words in consistent ways and highlighting good practices.

<QUESTION_04>

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

<QUESTION_05>

Product-level disclosures allow for firms to operate in different areas, as they should be allowed. As ESG practices continue to emerge, the investment products firms offer will likely grow and quite possibly the product-level may cover much of the firm. Closer to that stage, this question can be revisited. Some prospects and clients will want to know which firms (vs products) are most committed to ESG. In contrast, GIPS and the Asset Manager Code of conduct are all-or-nothing for good reasons.

Many investment managers including Genus intentionally position around ‘services’ rather than ‘products’. Your definition of product probably somewhat narrowly captures this with ‘strategies’ but consider broadening the language to more holistic sense of wealth relationship management.

<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 industry is already at the point where once ESG data/thinking gets in the door, it is likely reflected in some way in all mandates, even the “conventional” ones. We screen out tobacco across the firm and do not even really call that ESG, whereas our fossil free and impact portfolios go much further. If the manager uses any ESG vocabulary in the name or process description, one objective of the standard is to make sure they use those words consistently and transparently. So yes, managers can leave out some strategies from the standard, but if they start talking about ESG features they should be required to apply the standard fully.

<QUESTION_06>

Design Principles

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

<QUESTION_07>

Yes, important and well said. Explore adding a principle related to a flywheel of continuous improvement. That is, can the process of firms following the guidelines and reporting to them feedback into the design to keep making it better. Put another way, can you make a similar consultation unnecessary for 2025 because it is built-in continuously?

<QUESTION_07>

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

<QUESTION_08>

Descriptions such as “moderate” level of detail will need your Exposure Draft example to clarify how much is moderate. Required vs recommended is a good idea (that should be made clear which is which). Recommended is also a way to test future required disclosures and even wording of the questions.

<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>

Not sure if this means a single document per product or per firm. Some firms serve very different client types and it usually makes sense to serve and communicate with and about them distinctly. Conversely, products probably come in families so separate disclosures per product could be unwieldy and less helpful. Flexibility could be warranted here to let firms organize the disclosures in ways that stakeholders would find most useful.

<QUESTION_09>

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

<QUESTION_10>

Yes, recognizing that any product examination would include a certain amount of firm context anyhow.

<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>

Verification should be encouraged, but not required, in order to claim compliance with the CFA ESG standards. Same idea as GIPS. The CFAI has long experience with this subtlety and presumably landed here for lots of good reasons.

<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>

Recommend option (ii) design and implementation. If we start with design verification and add implementation verification later that is a reasonable way to stage it in.

<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>

Consider requiring the date of the independent examination.

<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>

The SDGs are a helpful framework (that we already use). However, they cover so many areas that most ESG spectrum products would align in some way. More helpful disclosure highlights which Goals are emphasized (trade-offs vs each other, if any) and to what extent (trade-offs vs other objectives, if any). Ultimately, the end investor seeks ways to compare across service providers therefore binary intention to align (or not) with this broad list of goals risks insufficient detail.

<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>

No comment

<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, it is a well-established and good feature name. The only issue is that it is quite easy for any conventional investor to truthfully say “yes, we integrate ESG type analysis”. What clients want to know is how and how much.

<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>

Great question. Your use of the expression “solely for the purpose” is most clarifying. It is tempting to interpret ESG Integration as a process rather than an intended outcome. “We look at ESG things alongside normal analysis” is a process and fairly low bar. “We figure out what is material for risk-return and act on it” is harder. We could try something like “Fiduciary ESG Integration” however sometimes responsibility extends beyond risk-adjusted returns as well and it is better to avoid this word that has such legal meaning. How about “Risk-Return ESG Integration” or “Sharpe ESG integration”.

<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 other comments.

<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>

The inclusion of the sources for ESG data is appreciated.

<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>

Appropriate name.

<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>

Terms are similar enough to be grouped together. Like the question raised on feature A, negative screening could be motivated exclusively by a risk-return rather than ethics/morals/norms. It could be both. And it could be concessionary on risk-return. In this case the definition should be neutral – it is the screening *method* that is paramount.

<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>

Clearly defined.

<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>

Agree with issues addressed.

<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>

Possibly specifying “ESG Best-in-Class” to limit any confusion as best-in-class can be measured by financial or other non-ESG metrics.

<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, we think the distinct section is necessary and complete.

<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>

Agree with issues addressed.

<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>

Appropriate name.

<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>

Clearly defined.

<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>

Agree with issues addressed.

<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>

Appropriate name.

<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>

Clearly defined. Particularly with this feature degree of focus on impact is critical for firms to articulate. The issues to be addressed raises several good questions. We expect the Impact Objective feature to evolve the most over the next few years.

<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>

Agree with issues addressed.

<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>

Appropriate name.

<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>

Clearly defined.

<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>

Agree.

<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 is a “darker green” category on the spectrum that is intentionally concessionary on risk-return. This can be on Environmental and/or Social. This is a kind of venture philanthropy or other similar ideas, like low- or zero-interest lending. It might be clarifying to the other six features to include this category, and although the focus is certainly on the other six, this category would also benefit from CFAI’s leadership on good practice and standardization.

<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>

The list of ESG-related needs represented is comprehensive, but the one area that could be added is the need to invest in ESG for positive public perception. There are entities and individuals that mainly wish to invest with ESG to improve their public appearance or even self-perception. These types of investors still support the positive initiatives associated with ESG and there is nothing wrong with it.

You could also add one along the lines of engagement action. For example, “I think markets are mostly efficient, so I expect my fund manager to devote more effort to engaging with issuers to improve returns and ESG performance than exclusively to stock picking.” (Table 3 points out that several needs hit on feature F, but perhaps this example is more differentiated).

<QUESTION_40>

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

<QUESTION_41>

ENTER RESPONSE HERE

<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>

This visual walk through is effective. Consider adding brief discussion to explain the examples.

<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>

This section of the user benefits is helpful because it acts as a quick summary to each stakeholder looking to understand how the Standards will impact them. One “user” that is not addressed that was brought up earlier in the paper would be the independent examiners. This Standard creates a niche operating role for them if they are to be used widely.

<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>

ENTER RESPONSE HERE

<GENERAL_COMMENTS>