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: *(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.)*	The Investment Funds Institute of Canada
Stakeholder Group: *(Please select the stakeholder group with which you most closely identify.)*	Asset Manager
Region: *(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.)*	North America
Country: *(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.)*	Canada
Confidentiality Preference: *(Please select your preference for whether your response is published on the CFA Institute website.)*	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>

The Investment Funds Institute of Canada (**IFIC**) appreciates the opportunity to comment on the CFA Institute ESG Disclosure Standards for Investment Products (**Consultation**).

IFIC is the voice of Canada's investment funds industry. IFIC brings together 150 organizations, including fund managers, distributors and industry service organizations to foster a strong, stable investment sector where investors can realize their financial goals. IFIC operates on a governance framework that gathers member input through working committees. The recommendations of the working committees are submitted to the IFIC Board or board-level committees for direction and approval. This process results in a submission that reflects the input and direction of a broad range of IFIC members.

We welcome the CFA's initiative to develop voluntary ESG Disclosure Standards for Investment Products. While Canadian fund managers and advisory firms have a long history of providing ESG and responsible investment products and services to their clients, in some cases, going back decades, there remains debate and confusion over what ESG and responsible investment is and how it is done. IFIC released a Responsible Investing Report (**IFIC's Report**) earlier this year that provided a straightforward overview of ESG and responsible investment in Canada and around the world and specifically addressed terminology and the rationale for responsible investment. There is broad alignment with terms presented in IFIC's Report and the CFA framework for product features.

Given that there is currently no broadly supported industry standard, we believe that the CFA initiative will be beneficial to fund managers, advisers, dealers, dealer representatives and investors. Our detailed responses to certain of the questions posed by the Consultation are set out below.

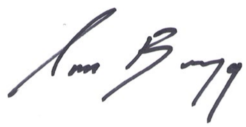
Voluntary and Flexible

We agree with the CFA's approach to the development of a voluntary disclosure standard. In keeping with this approach, asset managers should be permitted to voluntary determine the products they apply the standard to, have the flexibility to determine how best to make the disclosures and in which documents, and voluntarily determine if disclosures are subject to independent examination or verification by other than securities regulators.

Consider Adding an Intentionality Component to the ESG Related Product Features

IFIC recommends that the CFA consider adding an "intentionality" component" to the ESG related product features described in the Consultation. Doing so would provide clarity with respect to a product's investment objectives and strategies and would help investors align their objectives with a product's objectives. Doing so would also help clarify the purpose of specific product features, or ESG strategies.

IFIC is pleased to have had this opportunity to provide our comments to the CFA Institute. Please feel free to contact me by email at ibragg@ific.ca or by phone at 416-309-2325. I would be pleased to provide further information or answer any questions you may have.



Ian Bragg
Director, Research & Statistics

<QUESTION_01>

Terminology

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

<QUESTION_02>

Yes. The terms are clearly defined.

<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>

There is a lack of recognition of human rights as an important aspect of ESG throughout the document. Table 1 also does not mention any human rights standards such as the UN Guiding Principles on Business and Human Rights and the United Nations Declaration on the Rights of Indigenous Peoples.

<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 voluntary disclosure-based approach would provide the necessary tools for investors to align their investment objectives with investment product objectives. A prescriptive approach is not necessary, would be overly burdensome and could potentially conflict with regional ESG regulation.

<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. Many providers of investment funds in Canada are relatively large with complex business models and a variety of business units within asset management. While some ESG strategies may be pursued at the firm level, product-level disclosures are the most practical, achievable and meaningful.

<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>

Given the voluntary nature of the framework, it would be inconsistent to adopt a mandatory approach to applying the standard.

<QUESTION_06>

Design Principles

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

<QUESTION_07>

The design principles are comprehensive and, for the most part, well-considered. However, the principle of "Familiar" would be better described by a term connoting broad consensus and usage.

<QUESTION_07>

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

<QUESTION_08>

Yes. The strength and practicality of the framework is contained in the design principle of flexibility.

<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>

Asset managers should be permitted to determine how to report on the Standards. Given the already complex regulatory and reporting environments that asset managers operate in, they should not be burdened with the need to produce a new document if they do not wish to do so.

<QUESTION_09>

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

<QUESTION_10>

Yes. To the extent that an asset manager wishes to put forward funds for independent examination, it should be done at the fund and not firm level for reasons articulated in #5

<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 recommended as a best practice, but ultimately left to the asset manager.

<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 framework applies to the design and implementation of the investment product. If an asset manager puts forward products for independent examination, it would only make sense for design and implementation to both 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>

IFIC recommends adding an "intentionality" component to help investors align investment objectives with fund objectives. We believe there would be value for an asset manager to articulate the *intentions* of incorporating ESG features to, for example, deliver superior risk-adjusted returns, achieve positive

ESG change, provide a product that aligns with a particular set of investor values, or other intention. This is not to suggest that a fund should be required to articulate the intended outcomes, only the intention of the investment objective or strategy.

<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>

Such a requirement would be contrary to the flexible nature of the reporting framework and not all products align with the SDGs.

<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>

Such a requirement would be contrary to the flexible nature of the reporting framework. It is also unclear what specific disclosure requirements asset managers would be committed to given the state of Article 7 regulation.

<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 an important feature of many ESG products. However, most asset managers integrate material ESG factors to some degree. This feature needs further clarification by the CFA. Possible remedies suggested by IFIC members, include:

- Adding an intentionality component to the criteria as described in the answer to question #13.
- Adding disclosure requirements for how ESG factors are integrated and considered in relation to other factors in in the investment decision making process.

<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 answer 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 answer 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>

See answer to question #16.

<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, there is broad industry consensus and a history of shared use of this feature and term.

<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. “Negative screening” and “norms-based screening” are sufficiently conceptually similar; adding a seventh category to the framework should not be considered.

<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>

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>

We support the concept of “Best-in-Class” as a feature category as generally described in the Consultation. However, we believe that “Best-in-Class” is a problematic term that suggests subjectivity and may be prone to misinterpretation. Using the terms “best” or “positive” may unintentionally imply that products without this feature or are “worse” or “negative”. We recommend considering other terms such as “ESG Tilt” or a similar term suggesting securities selection based on better relative performance on one or more ESG factors.

<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, there is broad industry consensus and a history of shared use of this feature and term.

<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, there is broad industry consensus and a history of shared use of this feature and term.

<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>

Proxy Voting, Engagement and Stewardship is an important feature of many ESG products. Given that most asset managers undertake proxy voting to some degree, this feature requires further clarification by the CFA. Possible remedies suggested by IFIC members, include:

- Adding an intentionality component to the criteria as described in the answer to question #13.
- Including specific disclosure requirements that mandate an explanation of how ESG factors inform 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>

See response to question #35.

<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>

See response to question #35.

<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>

See response to question #35.

<QUESTION_38>

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

<QUESTION_39>

<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>

In general, the list of ESG-related needs covers the current spectrum of needs and motivations of investors interest in ESG-related products.

<QUESTION_40>

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

<QUESTION_41>

While clearly differentiated, there is a great deal of overlap among the identified needs.
<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>

It is unclear how the ESG-related needs framework is to be applied or otherwise used by asset managers or other investment professionals. If the next iteration of the Disclosure Standards retains this element, there should be more clarity on how it is to be used.

<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>

Broker-dealer firm should be added as one of the users.

<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>

See answer to question #43.

<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

<GENERAL_COMMENTS>