**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:**<br><br>*(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.)* | Oriens. Above the Noise |
| **Stakeholder Group:**<br><br>*(Please select the stakeholder group with which you most closely identify.)* | Consultant or Advisor |
| **Region:**<br><br>*(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.)* | Latin America |
| **Country:**<br><br>*(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.)* | Mexico |
| **Confidentiality Preference:**<br><br>*(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>

Yes

<QUESTION_01>

### Terminology

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

<QUESTION_02>

We think that ESG Matters should be conceptualized as ESG Factors. We acknowledge that there is a huge ambiguity in the ESG concepts in the literature and that it can make a direct reference to factor investing, however, it is useful yo have the same concept used along the Consultation Paper (see page 1, 18, 23, 24 and 25). It will also refer directly to the concept "ESG-related factor".

<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>

IIGCC Net Zero Investment Framework, EU Ecolabel, EU Capital Requirements Regulation (CRR) II, Capital Requirements Directive V, CRR III , Equator Principles

<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. ESG is context dependent. A disclosure-based allows investors to choose investments that fit their needs. Given the wide variety of definitions of ESG, a prescriptive-based approach would not make too much sense and may even compound the problem of definition proliferation. A disclosure-based approach is also in line with market-oriented approaches that allow investors to decide what is in their best interest and what is, in their view, the best interest of society.

<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. All firms now claim some allegiance to ESG. Asking firms to be more specific at the product level would allow investors to have more certainty about the managers' contributions to their ESG needs. We also note that not all investors are driven by ESG motivations, and some investors may even be anti-ESG, so having disclosures at the firm level would reduce the options for them.

<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. If a manager claims that an investment product has ESG-related futures, then they must apply the standards to that product. Otherwise, this exercise is useless.

<QUESTION_06>

## Design Principles

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

<QUESTION_07>

The principles are OK as a guide and useful in the "E" (environment). The principles are just aspirational in the "S" and the "G", (social and governance) which are more related to ethics and, therefore, subject to definitional debates.

<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

<QUESTION_09>

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

<QUESTION_10>

Yes

<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>

Recommended. We believe the standards should echo the GIPS Standards and be a voluntary item, hopefully enforced by the market

<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>

Both. This would, again echo the spirit of the GIPS Stantards.

<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

<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. As part of publicity materials, firms can claim that they're aligned with UN SDGs, which have become a catch-all agenda. The problem is that, if the Standards offer the option to claim that an investment product is "aligned" to SDGs, then managers will de facto substitute the Standards for an alleged alignment to SDGs. This goes against the very purpose of creating the Standards.

<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. The disclosure of the impacts on sustainability factors will give information of potential risks that might have a negative impact on the value of the investment product.

<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>

No. It seems that ESG integration refers to trying to enhance returns. The term does not imply that.

<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>

No. The term is misleading

<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>

No. See 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>

Yes. The name of the concept is misleading, but the issues that are addressed are correct

<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're not. Negative screening is a top-down exclusionary approach and norms-based screening is a bottom-up inclusionary approach that result in different approaches to portfolio composition.

<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>

Even though ESG is context specific (see General Comments) there is an opportunity to address human rights issues with this feature. For example, an investment product should disclose it is not investing in processes which rely on child labor. It can be strengthened if it includes human rights framework in the description.

<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>

ENTER RESPONSE HERE

<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>

Positive ESG performance profile is a better name. When you say Best in Class it seems as if you're judging one investment product from another, which is not the objective of this standard. As we discuss in the general comment, it seems that the standards are mixing portfolio design with implementation.

<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>

Given that this refers specifically to a performance metric, it might be worth having a separate measure.

<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>

Not completely. It should be clear that it is a feature that "evaluates" or "monitors" the performance of investment products in ESG features. Future documents might want to give examples of widely used metrics in the market in E, S and G.

<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>

ENTER RESPONSE HERE

<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>

It is clearly defined, but in the function cell, we would add governance, so that it includes issues like corruption and transparency

<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>

It must also include how the effort or actions intended to attain or accomplish will avoid negative social or environmental impacts.

<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>

It should definitely be a distinct feature, and perhaps be outside of this matrix altogether. Proxy voting and stewardship are complicated and present issues of their own, as the people who vote can't really know the motivations behind the investor on whose behalf they're voting. Granted, an ESG-related product can assume that investors have at least some tangential interest in ESG, but in some cases proxy voting leads to making decisions that are not entirely aligned with the particular interests or beliefs of a given investors. Again: ESG is context specific, so a given vote that may seem ESG “compliant” to a particular investor may not be so to another investor. And that needs to be addressed.

<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>

It is clear, though it could include references to policy advocacy and capital allocation strategies, such as commitments to not increase asset holding of non-compliant firms.

<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, see answer to question 37

<QUESTION_38>

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

<QUESTION_39>

They do, though they lack specific references to human rights, an important component to ESG investing

<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. Some of these needs are not mutually exclusive. 1 and 3 overlap in the sense that they refer to the risk-return profie. 2 and 3 overlap in the sense that both refer to beliefs

<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>

We have an issue with the ESG-related features part of the matrix, which is that it mingles design with implementation. See our general comments below.

<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, but we think derivatives underwriters and market participants should be included. Derivatives are increasingly used to hedge some form of ESG risk. Given that the EU is also using banking regulation to enact ESG policies, you need to include underwriters and other market players in the derivatives market. See the “Derivatives in Sustainable Finance” paper by the European Capital Markets Institute.

<QUESTION_44>

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

<GENERAL_COMMENTS>

As the bearer of the highest ethical standards in the investment industry, CFA Institute is uniquely placed to lead the discussion on ESG-related issues. This is a great effort, and we look forward to remaining engaged.

In Oriens, we believe that ESG is context specific, and that is why we support the disclosures-based approach instead of a normative-based approach, which would basically contribute to the proliferation of definition and the growing vagueness around the ESG agenda. We are aware that a disclosure-based approach would represent more work for investors, but at the end of the day, that extra work would represent a conscious effort to implement an ethics-based strategy, and it would actually empower investors and their beneficiaries, if any, in the long run.

To the extent possible, we would like the ESG standards to be inspired by the spirit of the principles CFAI's GIPS Standards: full disclosure and fair representation of performance results. In that light, third-party examination should be recommended as best practice, hoping that market discipline will result in a more transparent implementation of the ESG agenda. Based on the idea that ESG is context specific, we believe that examination should take place both at the design and the implementation levels. Verification just at the design level allows for greenwashing.

We believe there is room for improvement in the ESG-related features, which mix portfolio design and implementation, and compound the issue by putting proxy voting at the same level. We think it makes more sense to have three separate discussions. At one point the matrix becomes murky. We are aware that the working group is between a rock and a hard place here, but we think that a clear division between portfolio design and implementation is warranted. This also echoes the spirit of the GIPS Standard -think composites and portfolios.

An issue that in our view is not given enough weight is that, as ESG becomes more salient in markets, there will inevitably be some "ESG hedging", either for portfolio rebalancing reasons, or because there may eventually be "anti-ESG" portfolio managers -think about a portfolio manager who bets on the collapse of civilization and shorts ESG securities. The use of derivatives in ESG will become more prevalent and the ECB is looking into their integration for regulatory purposes. We therefore encourage the Institute to include participants in the derivatives markets as part of the user benefits.

<GENERAL_COMMENTS>