

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>	Prof. Dr. Stefan Vieweg, CFA Institute for Compliance and Corporate Governance (ICC)
Stakeholder Group: <i>(Please select the stakeholder group with which you most closely identify.)</i>	Consultant or Advisor
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>	Germany
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>

Definitively yes. Though, there is a BUT: at the moment, there are comprehensive and conflicting reporting initiatives and (pseudo)standards out there (e.g. coalition of inclusive capitalism,.TFCD...). Non of which looks really behind the curtain of the genuine performance on non-financial “ESG” matters. There is a lot of window dressing and green washing out there. It needs a broader – cross functional view (not only from the investment management side) to unleash the potential and drive for the real better performance that really helps decelerates global warming and social destruction. I refer to a separate position paper on those matters.

<QUESTION_01>

Terminology

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

<QUESTION_02>

For a standards, this is not sufficient! Much more specification is required here. Some examples

1. Definition of “ESG”: There are a lot of terminologies out there: I recommend [Radall D. Shaw’s blog “Soupization on alphabets”](#). If you recall where “ESG” is coming from (i.e. quality and not investment management) and that in many parts of the world other terms such as “CSR” are used, to me it makes sense to start off with a proper definition and relations between those terms.
2. Advisors are entirely missing in the definition: those ones may or may not be humans or AI based solutions (under final decision supervision or not (hopefully not)
3. “Related Needs”: here, the INTENT is missing in the first place: as the “need” and “want” is pretty much an individual matter, depending on individual knowledge, experience and overall perceptions.

<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>

It is required to set relations to specifications in an appropriate and compulsory manner. Just to refer to “examples” as per table 1 is inappropriate. It required to capture the full range, starting with existing standards such as GRI, OECD, UN, and going by country to reflect at least current legal requirements such as in Germany the German Sustainability Code

<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>

A disclosure-based approach is necessary but not sufficient! Linking this to an evidence-based reporting, backed by independent certified (technical) assessment of implemented processes (this is entirely different from a financial reporting lagging perspective of past transactions!), the disclosure approach is a way forward. We see too much greenwashing at the moment (even leading corporations with a green image bluntly bend the figures: as an example of a DAX30 – the leading German index – company claiming to minimize their footprint, interpret their CSR-progress in exec summaries, although the figures - correctly applied - tells exactly the opposite).

Basically, we have a similar situation with ESG as we had a decade ago before the financial crisis! Nobody seems to look behind the curtain, everybody tries to rely on “some” statements that looks good and are checked by public accountants (who may not necessarily have their skillset to fully understand complex sociotechnical production and supply chains in the primary value creation arena).

If CFA’s intent is to stick to such high level for “advice”, then CFA is no better than all other initiatives so far. As the keeper of the Holy Grail, we should do better 😊.

<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, firm level disclosure is paramount. Otherwise, see the prehistory of the financial crisis (and my answer to Q4)]

<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>

Probably the most pragmatic approach is not to force asset managers to apply the standard to the entire portfolio in the first phase. This will enable a feasible transition with meaningful and reliable execution

on “ESG assets”. Though, in the long run, assets managers should be motivated (by means of disclosure) on their ESG performance.

<QUESTION_06>

Design Principles

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

<QUESTION_07>

For me this is all wishful thinking. The reality and fact is, that ESG matters are very much driven by the primary value generating (e.g. non-financial) industries, various measures, terms and calculation methods are in use including full life cycle analysis, eco-balance, C2C (cradle to cradle) approaches. Complex measures such as SCOR and others provide insight into the real performance, the optimization potential and that footprint. Redefining something what is existing in variety hardly contributes added value.

<QUESTION_07>

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

<QUESTION_08>

fine

<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>

One central repository is highly recommended: why? Too often there are references made such as “look into our great CSR report at link www.xxx.com” and there, a “404 warning message” is waiting for you... that’s just not working

<QUESTION_09>

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

<QUESTION_10>

Examination must encounter the underlying asset! (see my remarks to Q4)

<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>

As before, CFA should aim for rigor approach requiring independent examination that comprises the real state of the asset.

<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

<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>

OK, except the alignment part, as it is too narrowly defined, excludes major other reporting standards and requirement sets.

<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, need to

<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, need to

<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, integration means the something is then really working.

Here, we are merely taking about an attempt by looking into other than financial performance data to create added value with non-financial performance measures. Hence, I suggest “ESG-based Value Add”

<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>

At least mid to long term, ESG poses (significant?) risks to assets, hence the valuation of risk-adjusted returns needs to consider these. Some terminology could be something like “comprehensive” or “anticipatory” risk adjusted return”

<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>

In addition to the categories provided, the independent (technical) examination (and certification) is missing, see my answer to Q11

<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>

Data and algorithms used for the assessment are crucial. This should be disclosed as well

<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>

OK

<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>

Fine for me

<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>

OK

<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>

If benchmark is “just” the financial performance base, not the ESG-related base, this comparison will lead to mismatches! E.g. a company that “optimizes” the supply chain by outsourcing areas of its production process (lower costs and CSR standards...). If the assessment of such company sticks to their “responsibility” not to the entire value chain, this will lead to an exaggerated ESG-performance statement.

<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>

ESG outperformance

<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>

Problem here is that only one criteria may be sufficient to qualify for “better ESG performance”: So, is it better to have an automotive OEM produce e-mobility cars with excessive use of raw material such as lithium or coltan for their batteries that put an extreme burden on miners and ecological disorder, or is it better to safeguards jobs in western world continuing with combustion engines and GHG emissions? Such questions can only be properly answered if a (technical) understanding, end-to-end view and analysis based e.g. on a eco-balance is being provided...

<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>

OK

<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>

See my remark to Q25

<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>

Advise: don't shed social and environmental topics into pieces, they are heavily interlinked! We would not have ESG targets for assets that are either in line or complementary, not exclusive or antinom!

<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>

See response above

<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>

See above

<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>

OK

<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>

OK

<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 needs to encounter avoidance of detrimental collateral effects, see my remark Q25

<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>

OK

<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>

OK

<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>

OK

<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>

OK

<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>

OK

<QUESTION_38>

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

<QUESTION_39>

See my remarks above

<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>

See my remarks above

<QUESTION_40>

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

<QUESTION_41>

See my remarks above

<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>

See my remarks above

<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>

In principle yes, though the "true truth" of ESG / CSR performance is not clear. That should be encountered, see my remarks above

<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>

OK

<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

Initiatives so far on “ESG”, “CSR” and the like are manifold, as the track record of misbehavior and misrepresentation in that area. So, we need to do better! I think CFA Institute can act here as role model, if – and only if – a comprehensive approach that encounters cross functional views are considered.

<GENERAL_COMMENTS>