

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>	Mozaffar Khan, PhD, on behalf of Causeway Capital Management LLC
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>	USA
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>

No, we do not agree.

ESG is of growing interest to many investors and Causeway welcomes efforts to promote investor understanding of ESG issues and ESG features of investment products. Causeway has in recent years independently sought to further investor understanding of ESG issues through multiple channels including global conference presentations, white papers, CFA Institute Financial Analyst Journal publication, Asset TV Master Classes, and client and consultant teach-ins. As an asset manager, Causeway is also committed to the highest prevailing industry disclosure standards for investment products.

Investor education and investment product disclosures complement each other in protecting investors. Many investors have expressed to us an interest in further education on ESG issues. Fulsome investment product disclosures are already largely governed by existing rules, standards, and practices, and are responsive to explicit and implicit investor demand for transparency. The need for a new set of disclosure standards, given the existing framework, is not immediately obvious from the CFA Institute's (hereafter "Institute") consultation paper on ESG disclosure standards. Below we describe our reasoning and offer an alternative suggestion to new standards, beginning with the latter.

An alternative suggestion

A key issue appears to be inconsistency in the understanding and usage of ESG terms, methods, and approaches. A simple way to coordinate understanding would be for the Institute to publish an online glossary of these terms, methods, and approaches. The glossary could then serve as a common reference for investors and asset managers, help harmonize understanding and usage, and accomplish many of the same ultimate goals without the rigidity of formal standards.

Why a new set of standards may not be needed

A number of observations are unrecognized in the Institute's consultation paper but are important to address in establishing a need for a new set of disclosure standards. In particular:

- i. The ESG investing space is still evolving and detailed standards at this point could have unintended consequences of potentially inhibiting innovation by promoting pigeonholing into existing categories and classifications;
- ii. Outside of ESG, there is variation in definitions of, and implementation methods and approaches for, common investment style factors such as quality, growth, value, etc. For example, there is heterogeneity across asset managers in the conception and measurement of the quality factor. However, the Institute has not previously published separate dedicated disclosure standards for these style factors. Rather, disclosures for these style factors, and a variety of other investment terms, methods, and approaches, are governed by existing disclosure rules, standards, and practices which likewise apply to ESG and which appear adequate and flexible to also govern ESG disclosures;
- iii. Existing legal / regulatory and market mechanisms motivate fulsome and accurate disclosures of investment product features, methods, and approaches. Examples of legal / regulatory mechanisms include SEC (and its global counterparts') staff review of registered investment product prospectuses, Plain English and similar disclosure guidelines, and potential legal liability. Examples of market mechanisms include detailed due diligence by sophisticated investors and their reluctance to invest in products with inadequate disclosures.

In our view, the Institute's consultation paper does not currently establish a compelling rationale for a new set of separate ESG disclosure standards.

<QUESTION_01>

Terminology

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

<QUESTION_02>

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<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>

ENTER RESPONSE HERE

<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 disclosure-based approach (describing product features as they are), rather than a prescriptive approach (prescribing what product features ought to be to achieve a given objective), is appropriate.

<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, a product-level rather than firm-level focus is appropriate.

<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>

ENTER RESPONSE HERE

<QUESTION_06>

Design Principles

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

<QUESTION_07>

We broadly agree with these design principles. They are aligned with SEC Plain English disclosure rules and appear generally applicable to definitions.

<QUESTION_07>

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

<QUESTION_08>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<QUESTION_09>

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

<QUESTION_10>

ENTER RESPONSE HERE

<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>

We do not believe a separate independent examination of ESG-related features is warranted. Legal and market mechanisms (previously described in response to Question 1) motivate truthful disclosures.

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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. The UN SDGs are broad societal goals and alignment with some of these goals may be an explicit objective of certain Impact funds, but alignment is unlikely to be an objective of the average ESG fund (for example, funds with ESG integration approaches). For the average fund, a certain degree of alignment with certain SDGs may be a positive by-product but is unlikely to be an objective.

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<QUESTION_38>

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

<QUESTION_39>

The ESG investing space is evolving rapidly and there is currently much innovation. We are concerned that listing (six) product features in a disclosure standard could lead to pigeonholing of products into these feature boxes and potentially inhibit innovation of new features.

<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>

Investor needs can evolve, and investors can also discover needs once products with new features become available. It is difficult to create a comprehensive list of investors' ESG-related needs.

<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>

ENTER RESPONSE HERE

<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>

ENTER RESPONSE HERE

<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>