



Improving Transparency and Comparability of Investment Products with ESG-related Features

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Consultation Paper

on the development of the CFA Institute

ESG Disclosure Standards for Investment Products

August 2020

MISSION STATEMENT

To lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.

CFA INSTITUTE INDUSTRY CODES AND STANDARDS

GLOBAL INVESTMENT PERFORMANCE
STANDARDS (GIPS®)

GIPS® STANDARDS FOR FIDUCIARY
MANAGEMENT PROVIDERS TO UK
PENSION SCHEMES

ASSET MANAGER CODE™

PENSION TRUSTEE CODE OF CONDUCT

ENDOWMENTS CODE OF CONDUCT

WHAT PROMPTED THE DEVELOPMENT OF THIS STANDARD?



Increasing awareness of ESG matters among investors and greater availability of ESG data and information that can be used in investment decision making



Concerns that the inconsistency and variation in ESG-related disclosures, terminology, and investment approaches contribute to confusion and misunderstanding

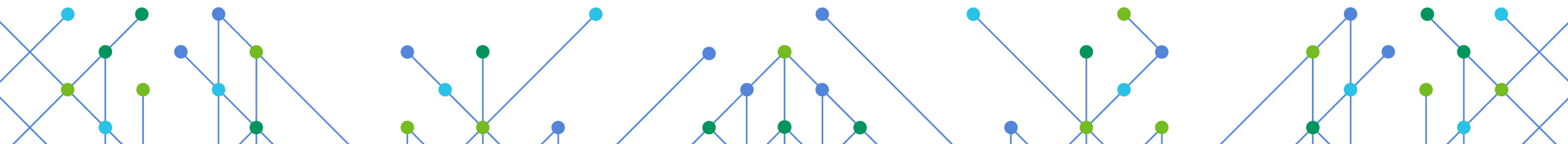
WHAT IS THE SCOPE OF THE STANDARD?

In scope:

- Define and classify ESG-related features for investment products
- Establish disclosure requirements and procedures for independent examination

Out of scope:

- Establish disclosure requirements for corporate issuers
- Prescribe requirements for the labeling or rating of securities or investment products
- Define best practice for a particular strategy or approach
- Develop criteria to assess or measure the sustainability of economic activities or investment products
- Advance principles to be used in investment decisions



LANDSCAPE OF ESG-RELATED STANDARDS AND REGULATIONS

Type and Scope	Examples
Specifications for investment product disclosures	<ul style="list-style-type: none"> • CFA Institute ESG Disclosure Standards for Investment Products • Regulation EU 2019/2088 Sustainable Finance Disclosure Regulation (SFDR) • Eurosif European SRI Transparency Code
Specifications for measurement or reporting	<ul style="list-style-type: none"> • Principles for Responsible Investment (PRI) Reporting Framework • Impact Management Project
Specifications for investment products	<ul style="list-style-type: none"> • Febelfin Quality Assurance Standard and Towards Sustainability label • SRI Label (Label ISR; French Ministry for the Economy and Finance) • Luxembourg Finance Labelling Agency (LuxFLAG) labels • EU Ecolabel (under development)
Specifications for investment approaches	<ul style="list-style-type: none"> • British Standards Institution (BSI) PAS 7341: Responsible and Sustainable Investment Management • International Finance Corporation (IFC) Operating Principles for Impact Management
Definitions of investment approaches	<ul style="list-style-type: none"> • The Investment Association (IA) Responsible Investment Framework • Global Sustainable Investment Alliance (GSIA) definitions • Institute of International Finance (IIF) working group report on sustainable investment terminology • Investment Company Institute (ICI) report: "Funds' Use of ESG Integration and Sustainable Investing Strategies: An Introduction"
Codes and Principles (of investing)	<ul style="list-style-type: none"> • The UK Stewardship Code 2020 • Principles for Responsible Investing (PRI)
Specifications for benchmarks	<ul style="list-style-type: none"> • Regulation EU 2019/2089 Climate Transition Benchmarks, EU Paris-aligned Benchmarks, and sustainability-related disclosures for benchmarks
Specifications for issuer disclosures	<ul style="list-style-type: none"> • Sustainability Accounting Standards Board (SASB) Standards • Global Reporting Initiative (GRI) Standards • Task Force on Climate-related Financial Disclosures (TCFD) recommendations • Directive 2014/95/EU Non-Financial Reporting Directive (NFRD)
Specifications for bonds	<ul style="list-style-type: none"> • Climate Bond Initiative (CBI) Climate Bonds Standard and Certification Scheme • EU Green Bond Standard
Classifications of economic activities	<ul style="list-style-type: none"> • EU Taxonomy

HOW WAS THE CONSULTATION PAPER DEVELOPED?



15 individuals selected for their wide-ranging industry experience and deep ESG expertise, supported by CFA Institute staff

HOW WILL THE STANDARD ACHIEVE ITS PURPOSE?



Definition of ESG-related features and key terms



Requirements for ESG-related disclosures



Classification of ESG-related features by investor need



Procedures for independent examination of ESG-related disclosures

PROPOSED TERMINOLOGY



ASSET MANAGER	An entity that manages an investment product.
ESG MATTERS	Affairs, situations, or topics related to the environment, society, or corporate governance (ESG).
ESG-RELATED FACTOR	A circumstance, fact, estimate, analysis, or influence, related to one or more ESG matters, that contributes to a decision or outcome.
ESG-RELATED FEATURE	A component or capability, intentionally incorporated into the design of an investment product to provide a benefit for the investor, that relies on ESG-related factors or addresses investors' ESG-related needs. An investment product can have more than one ESG-related feature.
ESG-RELATED NEED	A benefit related to ESG matters that an investor must obtain (needs) or would like to obtain (wants).
INVESTMENT PRODUCT	Products offered by an asset manager to an investor, including i) pooled funds, such as mutual funds, UCITS funds, ETFs, and limited partnerships and ii) strategies for which one or more segregated accounts are managed or may be managed.
INVESTOR	An individual or institution that has purchased an investment product or is considering the purchase of an investment product.

DEFINING ESG-RELATED FEATURES



Each feature's definition consists of the following six components:

- Feature name – the feature name and a corresponding letter code for ease of reference
- Function – the feature's role within the investment product
- Benefits – the utility an investor can typically expect from the feature
- Alignments – how the feature's definition aligns with other organization's definitions
- Notes – additional explanation and comments
- Examples – examples of how the feature may be expressed in an investment product or described in the marketplace

PROPOSED ESG-RELATED FEATURES



Feature Name

Function

ESG Integration (A)

Explicitly considers ESG-related factors that are material to the risk and return of the investment, alongside traditional financial factors, when making investment decisions.

ESG-Related Exclusions (B)

Excludes securities, issuers, or companies from the investment product based on certain ESG-related activities, business practices, or business segments.

Best-in-Class (C)

Aims to invest in companies and issuers that perform better than peers on one or more performance metrics related to ESG matters.

ESG-Related Thematic Focus (D)

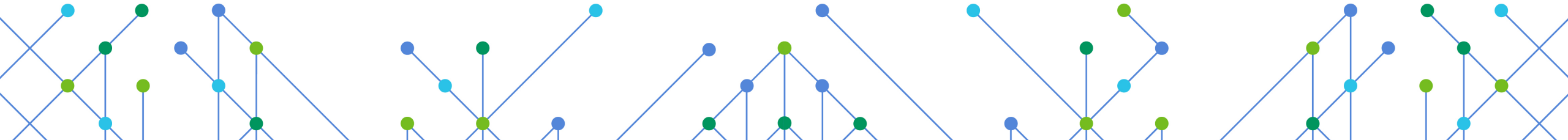
Aims to invest in sectors, industries, or companies that are expected to benefit from long-term macro or structural ESG-related trends.

Impact Objective (E)

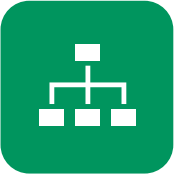
Seeks to generate a positive, measurable social or environmental impact alongside a financial return.

Proxy Voting, Engagement, and Stewardship (F)

Uses rights and position of ownership to influence issuers' or companies' activities or behaviors.



PROPOSED ESG-RELATED NEEDS



“I want to know that the ESG factors that are material to the risk and return of my investments are explicitly considered.”

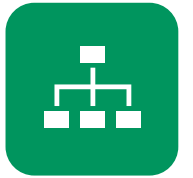
“I don’t want to violate my personal beliefs or the mission, principles, or beliefs of my organization.”

“I want to make investments that I believe have relatively fewer negative effects, and more positive effects, on the people and things I care about and the world in which I live.”

“I want to capitalize on investment opportunities related to long-term environmental or social trends.”

“I want to invest in specific solutions that intend to make a measurable contribution to a defined environmental or social need, problem, or goal.”

PROPOSED CLIENT NEEDS – PRODUCT FEATURE MATRIX

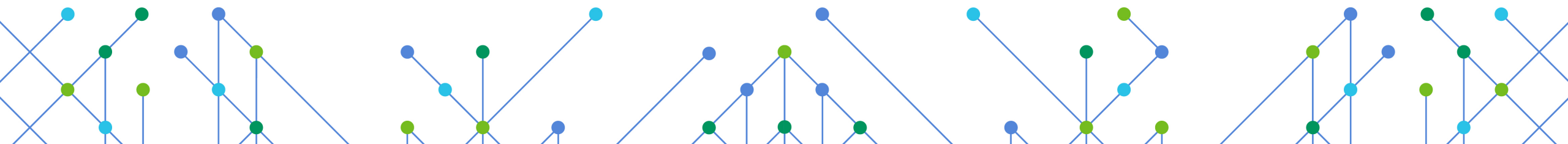


ESG-related Needs \ ESG-Related Features	ESG Integration (A)	ESG-Related Exclusions (B)	Best-in-Class (C)	ESG-Related Thematic Focus (D)	Impact Objective (E)	Proxy Voting, Engagement, and Stewardship (F)
(1) “I want to know that the ESG factors that are material to the risk and return of my investments are explicitly considered.”	•					•
(2) “I don’t want to violate my personal beliefs or the mission, principles, or beliefs of my organization.”		•				
(3) “I want to make investments that I believe have relatively fewer negative effects, and more positive effects, on the people and things I care about and the world in which I live.”		•	•		•	•
(4) “I want to capitalize on investment opportunities related to long-term environmental or social trends.”				•		
(5) “I want to invest in specific solutions that intend to make a measurable contribution to a defined environmental or social need, problem, or goal.”					•	•

DESIGN PRINCIPLES FOR DISCLOSURE REQUIREMENTS



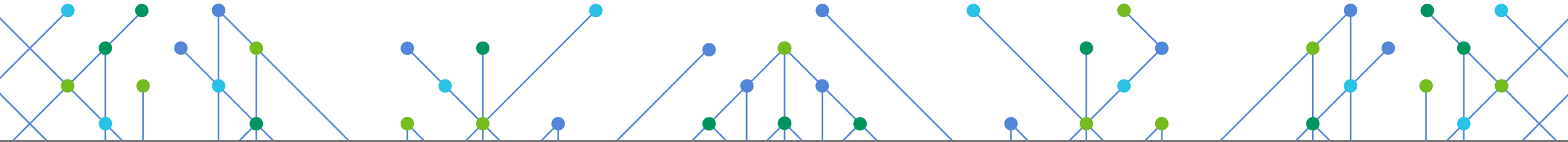
- Disclosure requirements should focus on relevant, useful information
- Disclosure requirements should focus primarily on ESG-related features
- Disclosure requirements should allow asset managers the flexibility to make the required disclosure in the clearest possible manner given the nature of the product
- Disclosure requirements should aim to elicit a moderate level of detail.
- Disclosure requirements should prioritize content over format.
- Disclosure requirements should be categorized as “general” or “feature-specific”.



GENERAL VS. FEATURE-SPECIFIC REQUIREMENTS



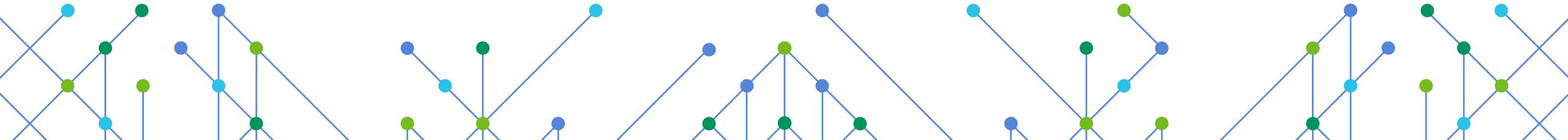
General Disclosure Requirements	
Feature-Specific Disclosure Requirements	
ESG Integration (A)	
ESG-Related Exclusions (B)	
Best-in-Class (C)	
ESG-Related Thematic Focus (D)	
Impact Objective (E)	
Proxy Voting, Engagement, and Stewardship (F)	



DESIGN PRINCIPLES FOR INDEPENDENT EXAMINATION



- The Standard will apply only to those investment products offered by an asset manager that have one or more of the features defined in the Standard as an ESG-related feature.
- We propose that asset managers will be able to choose the products to which they apply the Standard, but when an asset manager has chosen to apply the Standard to a specific investment product, the asset manager must comply with all of the Standard's requirements.
- We propose that independent examination be performed on an investment product basis, rather than for the asset manager as an organization.



WHO WILL USE THE STANDARD AND HOW WILL THEY BENEFIT?

Investors

- More clearly identify and communicate ESG-related needs
- More easily identify products that will meet particular ESG-related needs
- More easily understand and compare products with ESG-related features
- Greater confidence that a product's disclosures are a fair representation, if the product has undergone an independent, third-party examination

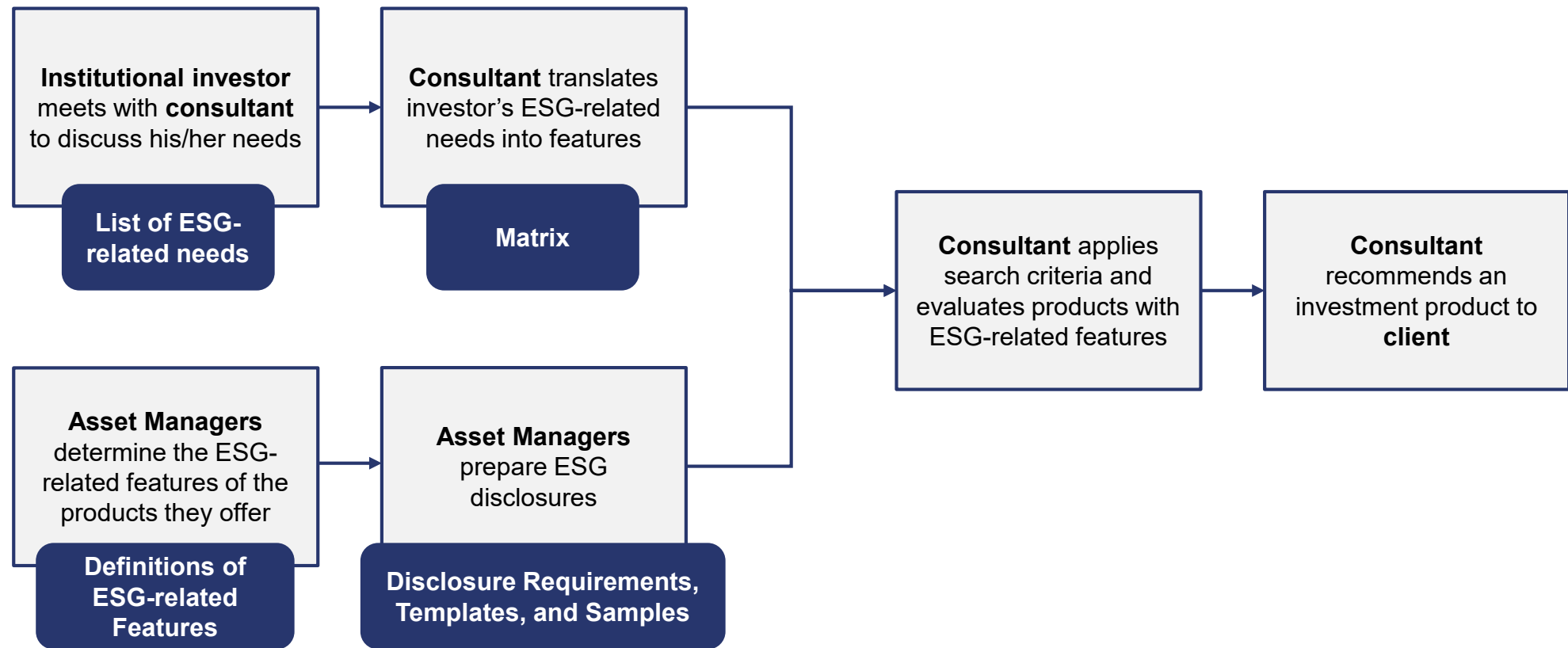
Asset Managers

- Clearly communicate the ESG-related features of products
- More easily market products with ESG-related features across geographic borders
- Save time and effort responding to questionnaires and due diligence requests
- Demonstrate a voluntary commitment to best ethical practices

Consultants and Advisors

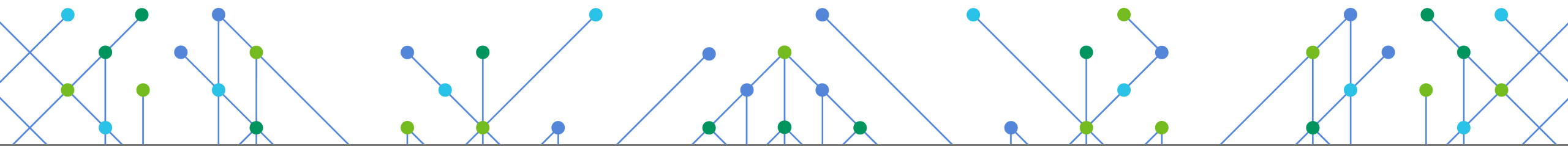
- More clearly discuss ESG-related needs and ESG-related features with clients
- Have greater confidence that recommendations align with client's investment policy statement
- More easily identify and compare products with ESG-related features that originate in different geographical regions
- Save time and effort related to product searches and comparisons

HYPOTHETICAL PRODUCT SELECTION PROCESS



HYPOTHETICAL HIGH-LEVEL COMPARISON OF PRODUCTS

ESG-Related Features	Product T	Product U	Product V	Product W	Product X	Product Y	Product Z
ESG Integration (A)	○	○	○	●	●	●	●
ESG-Related Exclusions (B)	●	○	●	●	●	○	●
Best-in-Class (C)	○	○	○	○	●	○	●
ESG-Related Thematic Focus (D)	○	●	○	○	○	○	●
Impact Objective (E)	○	○	●	○	○	○	●
Proxy Voting, Engagement, and Stewardship (F)	○	○	●	●	○	○	●



NEXT STEPS

2020					2021											
A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D

★ Consultation Paper

Public comment period

Recruit ESG Technical Committee and ESG Verification Subcommittee

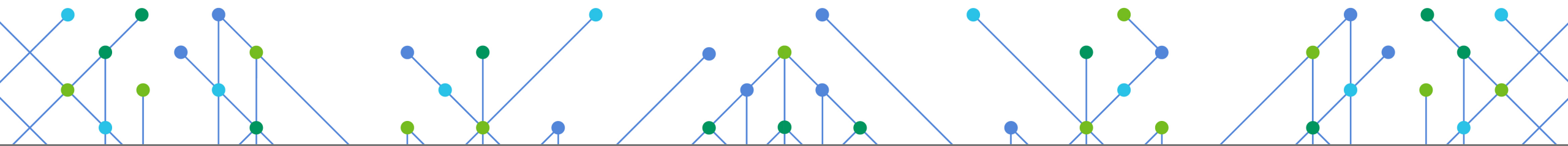
Analyze comments and develop Exposure Draft

★ Exposure Draft (target: May 2021)

Public comment period

Analyze comments and develop Final Draft

★ Final Draft (target: Nov 2021)



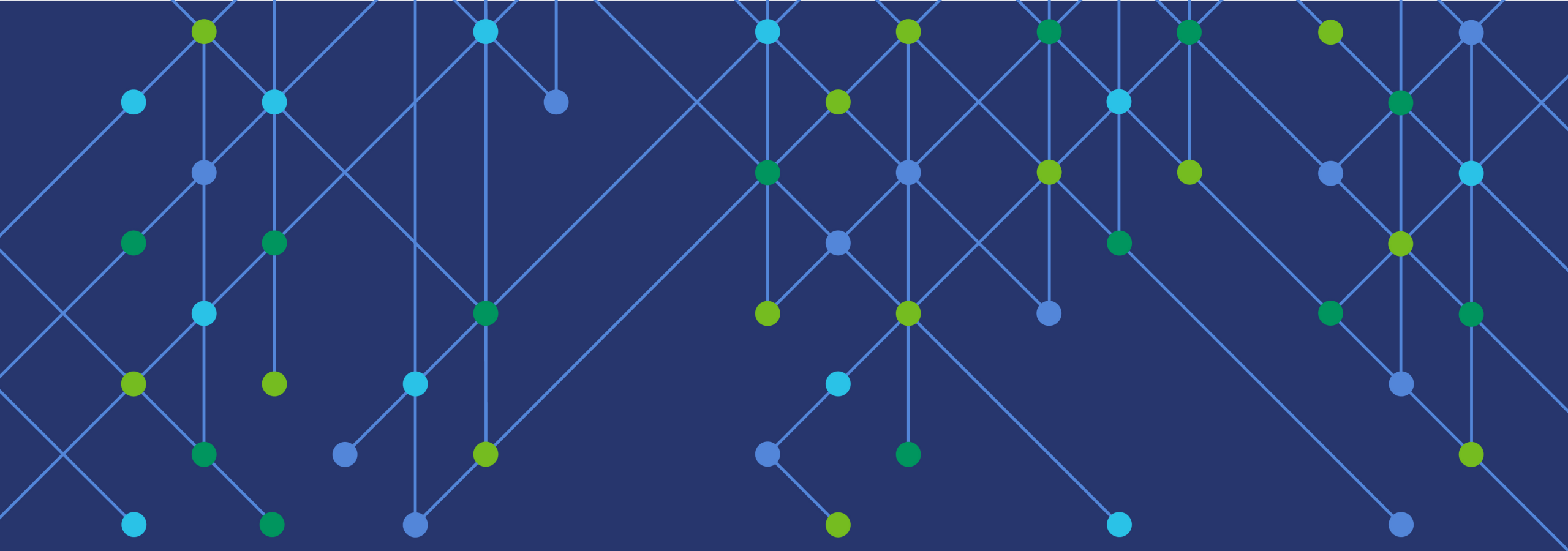
KEY TAKE-AWAYS

INSIGHTS

- **Multiple standards are necessary.**
- **We need to focus on details, not names.**
- **The ESG-related features of investment products must be clear and explicit.**

ACTION ITEMS

- **Submit a comment letter by 19 October 2020.**
- **Apply for the ESG Technical Committee or ESG Verification Subcommittee by 23 September 2020.**



THANK YOU!