

28th February, 2020

Amy Rowley
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By Email to: Amy.Rowley@bsigroup.com

Dear Ann,

Response to Consultation on PAS 7341 on Responsible & Sustainable Investment (the "Consultation")

The CFA Society of the UK (CFA UK) is pleased to take this opportunity to respond to the Consultation.

About CFA UK and CFA Institute

CFA UK is the professional body for the UK investment sector and is a member society of CFA Institute, the world's largest association of investment professionals.

As professional bodies working in the investment management sector, CFA UK and CFA Institute share a mission to promote the highest standards of ethics, education and professional excellence for the ultimate benefit of society.

The respective practices of Responsible and Sustainable Investment are of increasing relevance to our industry and CFA UK has been supporting and promoting this in a number of ways in recent years:

- CFA UK held its first annual ESG Conference in London in October 2019;
- CFA UK launched its Certificate of ESG Investing in September 2019. This exam, and its curriculum, aim to provide CFA UK members and other investment professionals with a resource to improve their understanding and execution of both Responsible and Sustainable Investment. Since its launch close to 1,500 professionals have participated in the exam;
- Over the last 15 months, CFA UK has responded to six consultations from the IA, the FRC and the FCA on the subjects of stewardship, green finance, climate change and fund-labelling¹.

Further highlights of CFA UK and our global umbrella organisation, CFA Institute, are provided in Appendix II.

¹ Please see Appendix I for a list of recent relevant consultation responses

Overview of our response

In this letter we address five questions as specifically requested by the BSI immediately below. We additionally provide more detailed side-comments to PAS 7341 as requested on the BSI's web-site and these are attached in Appendix III.

In terms of principle remarks, we wish to make the following observations:

- We strongly support the aims and intentions of the two distinct tiers for Responsible and Sustainable Investment and agree with the levels at which they have been respectively set;
- We strongly support the applicability of the PAS across all asset classes.
- Our main concerns with PAS 7341 are that:
 - there is a lack of specificity around the proportion of a firm's business that must be compliant with the requirements of each respective tier;
 - the absence of any independent and recognised third party verification body means that there is a risk of an inconsistent application of PAS 7341 across the industry by firms which could lead to the BSI Responsible Investment and Sustainable Investment kite-marks being used in cases of accidental or even deliberate greenwashing;
 - as currently drafted, the requirements of passive firms to meet particularly the higher Sustainable Investment Management tiering may be insufficiently granular.

Responses to specific questions

1. Does the tiered approach – responsible investment and sustainable investment – work and are there any inconsistencies in what is included in each tier?

Yes. CFA UK supports the two-tier system whereby:

- Responsible Investment is set at a 'minimum level' which every firm should be expected to achieve and is aligned with firms' voluntary practices and disclosures under the UK Stewardship Code;
- Sustainable Investment is aligned with the requirements of the Paris Agreement and consistent with the aim of keeping the rise in global temperatures to within 1.5°C of pre-industrial levels.

2. Looking at the activities described in Table 1 is there anything that could not be achieved for an investment firm and/or is there anything missing from these activities?

Table 1 has been well designed to provide an over-arching framework to guide firms to carry out both Responsible and Sustainable Investment.

Two additions to Table 1 that CFA UK invites the BSI to consider would be:

- on the Investment Process principle, we would encourage further guidance for assets that do not attract voting rights or where engagement requirements differ such as in the Fixed Income or Real Asset sectors;

- under the Transparency principle, the introduction of additional wording specifically under the Activities to acknowledge the reality that different stakeholders (e.g clients, regulators, key partners) are likely to require different disclosures and reporting.

3. PAS 7341 is applicable at the investment management firm level – are the draft requirements achievable at the firm level, and are there any elements which would be difficult to aggregate above the fund level?

As currently drafted the PAS 7341 requirements should be achievable at the firm level.

One major criticism that CFA UK has of PAS 7341, however, is the lack of any specific threshold or even guidance as to the proportion of a firm's business (in terms of (say) % of a firm's total AuM) which has to comply with the requirements of either Responsible Investment or Sustainable Investment in order that a firm can claim compliance with that respective tiering. To expect 100% compliance by all funds under management might be unrealistic, especially for the Sustainable Investment tiering, but at the other end of the scale 10% compliance in our view would be insufficient. We would set the bar at 80% "of the investment management business" and leave the firms to self-determine how they measure that most appropriately for the mix of the funds they manage (AuM is likely to be the most common measure but may not always be the most appropriate).

4. Are these requirements applicable for index trackers as well as active investors? What requirements should an index tracker meet to be considered a sustainable investor and do these align with current industry best practice?

CFA UK strongly believes the PAS 7341 requirements should apply to all management styles and therefore passive and active investment equally.

Passive investors should be required to evidence a policy of investee engagement and not just be able to rely on screening techniques. Where passive firms rely on third-party ESG data providers they need to demonstrate that these providers have been thoroughly vetted. Where investee engagement has proved ineffective, passive firms should have escalation strategies to evidence that they are not just paying lip-service to the requirements of PAS 7341.

CFA UK believes that PAS 7341 should provide some sort of threshold or guidance for passive firms as to the amount of engagement that is required. For example, with what proportion of a firm's investees would active engagement be expected for, respectively, Responsible investment management and Sustainable investment management? Or what proportion of a passive firm's resources should be committed to engagement? Or, if the judgement is to be outcome-based, what outcomes does PAS 7341 expect to see?

5. Do the requirements align with current industry best practice and existing/emerging regulation?

The requirements of PAS 7341 provide respective frameworks for Responsible and Sustainable Investment Management that reflect current industry best practice and the various existing/emerging regulations referred to in the PAS 7341 document.

As currently drafted, however, CFA UK believes that the absence of any concrete thresholds as to the proportion of a firm's business that must comply with the requirements means that there is no assurance that industry best practice is being followed by a firm claiming compliance.

Furthermore, since the PAS is voluntary, it is left up to each firm itself to interpret and self-attest against the requirements of the two tiers. Critically, the absence of any requirement for third party verification from a recognised independent third-party or a regulator to carry out that verification work (even on a sampling basis) means that it is virtually certain that there will be inconsistent application of PAS 7341 across the industry. CFA UK has concerns that independent third-party verification of itself is not the answer as there are a wide number of potential providers of these services and there will be no proper assurance as to their veracity and capabilities. CFA UK would recommend that the BSI consult further on how a third-party verification system can be established which can be safeguarded as independent, competent and cost-effective for firms of all sizes. CFA UK suggests an independent not-for-profit organisation could be established to consider how this might be best achieved and then possibly to be in charge of implementation.

We trust that these comments are useful and would be pleased to discuss them in person. We are also content for CFA UK's name to be included in the list of respondents. Our response is not confidential.

Yours sincerely,



Will Goodhart,
Chief Executive
CFA Society of the UK



Andrew Burton
Professionalism Adviser
CFA Society of the UK

With thanks for overview from the CFA UK Professionalism Steering Committee

Appendix I: Recent CFA UK Consultation Responses

- Response to the FCA’s consultation (CP19/15) on extending the duties of IGCs to include VFM and ESG (July 2019):
https://www.cfauk.org/-/media/files/pdf/professionalism/cfa-letter-to-fca-on-cp19_15-to-fca-15-july.pdf
- Response to the FRC and FCA joint discussion paper (DP19/1) “Building a regulatory framework for effective stewardship” (April 2019):
https://www.cfauk.org/-/media/files/pdf/professionalism/cfa-letter-to-fca-on-dp19_01-final.pdf?la=en&hash=9A937D561C3D2451047CBD7A3982C7D242B355E6
- Response to FRC’s consultation on the proposed revision to the Stewardship Code (March 2019):
<https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/responses/cfa-uk-response-to-the-frcs-consultation-on-the-stewardship-code.pdf?la=en&hash=DE129C5EF548A241711060A40B0C1DB56154C82A>
- Response to the FCA’s consultation (CP19/07) on proposals to improve shareholder engagement (March 2019):
<https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/responses/cfa-uk-response-to-the-fcas-consultation-on-proposals-to-improve-shareholder-engagement.pdf>
- Response to the Investment Association’s consultation on sustainability & responsible investment (March 2019):
https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/responses/cfa-letter-to-jess-foulds-at-the-ia_.pdf?la=en&hash=0A01E51C384079642F147E97B58B091EE86382B8
- Response to the FCA regarding Discussion Paper (DP18-08) Climate Change & Green Finance (January 2019):
<https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/responses/cfa-letter-to-shamamah-deen-31jan19-final.pdf?la=en&hash=1D3FE7C8D43E0FF339F4CCE9FC884BF4FE3D0C37>

Appendix II: About CFA UK & the CFA Institute

CFA UK: serves nearly 12,000 leading members of the UK investment profession.

- The mission of CFA UK is to build a better investment profession and to do this through the promotion of the highest standards of ethics, education and professional excellence in order to serve society's best interests.
- Founded in 1955, CFA UK is one of the largest member societies of CFA Institute (see below) and provides continuing education, advocacy, information and career support on behalf of its members.
- Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation, or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

CFA Institute: is the global association for investment professionals that sets the standard for professional excellence and credentials.

- The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow.
- It awards the Chartered Financial Analyst® (CFA), and Certificate in Investment Performance Measurement® (CIPM) designations worldwide; publishes research; conducts professional development programs; and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry.
- CFA Institute has members in 162 markets, of which more than 170,000 hold the Chartered Financial Analyst® (CFA) designation. CFA Institute has nine offices worldwide and there are 158 local member societies.
- For more information, visit www.cfainstitute.org or follow us on Twitter at @CFAINstitute and on Facebook.com/CFAINstitute.