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: *(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.)*	CFA Society of the UK
Stakeholder Group: *(Please select the stakeholder group with which you most closely identify.)*	Investor
Region: *(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.)*	Europe
Country: *(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.)*	United Kingdom
Confidentiality Preference: *(Please select your preference for whether your response is published on the CFA Institute website.)*	yes, my response may be published

Consultation Paper Questions

<u>Market Needs</u>

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>

While not strictly necessary, such a standard (viz. set of standards) would certainly be additive for interested investors if constructed effectively, especially as concerns about greenwashing continue to grow and the range and quality of ESG-related products continues to expand and improve. A quick comparison of firms' disclosures may be easier than trawling through UN PRI/Stewardship Code/TCFD reporting, websites, prospectuses, etc. (highlighting the importance of a consistent framework for disclosures applied across firms for true comparability).

The Standard's challenge will be in truly distinguishing itself from the myriad other ESG frameworks – recommended or required – currently in the global marketplace. There is a delicate balance in being distinct without posing an undue burden to those adhering to it or facilitating greenwashing. So too there is a delicate balance in not making value judgements: ideally, the Standard will be used for products with significant ESG credentials and also for those whose implementation might lag. Either way hopefully it will leave room for thoughtful analysis and selective utilisation of ESG (i.e., managers should not feel a pressure to make every product nominally ESG-related).

CFA UK wishes to underline that all attempts at an ESG standard are ultimately dependent on the quality of available ESG-related data, for example corporate reporting used as an input for third-party ESG ratings. We observe continued progress in the space, but ultimately the content and format of such information remains inconsistent and incomplete; neither this Standard nor any other can be truly useful in such a context unless and until the situation improves.
<QUESTION_01>

<u>Terminology</u>

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

<QUESTION_02>

- We note the broad definition of "asset manager", and wonder if it would be useful to (i) include specific examples, for the avoidance of doubt related to scope (although take-up of this standard will likely hinge on end-investor demand, as opposed to asset managers' proactiveness) and/or (ii) create an additional definition of "asset management industry/sector" to cover the many other types of firms that belong to the asset management ecosystem but who are not actually asset managers. Examples might include internal portfolio management teams at large asset owners or consultants; financial institutions specifically; or fund-of-fund selectors/OCIO. The latter would be dependent on individual manager disclosures in some cases (and there may be questions about what level of disclosure is appropriate for this specific category – a broad disclosure and a requirement for a proportion of underlying managers meeting the Standard?), but we would propose they be clearly included here too.

- It is consistent with CFA Institute's desire not to be overly prescriptive that "ESG" is not defined beyond things related to the environment, society, or governance – but is "related to" strong enough? One member of our group did ask why the UN PRI definition (which is prescriptive) was not adopted, though.

- We question the benefit requirement for the definitions of "ESG-related feature" and "ESG-related need". Would simply meeting ESG-related needs constitute a benefit of a feature, or is benefit intended to imply some kind of quantifiable gain? Academic dialogue on this point is significant, but unequivocally meeting ESG-related needs can sometimes result in a quantifiable financial loss, or a non-financial benefit that is not quantifiable outside of a specific portfolio (carbon reduction, for example, vs. a benchmark for a given portfolio does not necessarily have clear or near-term "real-world" impact).

  At the same time, the current definition of ESG-related need includes needs and wants. Perhaps this could be softened/clarified as suggested below. If there is a desire to keep "benefit" in some form, we would suggest softening to "intended benefit", and the disclosure requirements should address this specifically.

ESG-related feature: A component or capability, intentionally incorporated into the design of an investment product, that relies on ESG-related factors or addresses ESG-related needs.
ESG-related need: A consideration of ESG matters that an investor must obtain (requires) or would like to obtain (wants).

- "Investment product" is defined as including both pooled funds and segregated accounts (SMAs). It is worth clarifying how this might be specified, since new disclosures related to pooled funds suggest a potential recommendation for offering document amendments but disclosures related to strategies more generally would take a different format. Likewise, it is not clear how cases where asset managers are flexible on customization – for example a broad investment strategy *could* be implemented with zero, one, or more of the stated features in an SMA depending on an investor's ESG-related needs and the terms of the specific mandate – should be handled.

  Perhaps the Standard should establish recommended disclosure for non-SMAs in its first phase. Watching the adoption for other vehicles, SMA investors may find disclosures superfluous on top of already significant due diligence (especially when significant customisation is involved), or instead they may begin to request something similar in early due diligence stages. Irrespective, given the complexity/utility trade-off, we might propose keeping segregated accounts for a "Phase 2".

<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>

- Consider adding to "Specifications for investment product disclosures": EFAMA Guidance on RI Information in the KIID & Post Investment Disclosure (2012)
- Consider adding to "Specifications for measurement or reporting": London Stock Exchange Group ESG Reporting guidance
- Consider adding to "Definitions of investment approaches": UN PRI Technical Guide: ESG Incorporation in Hedge Funds (2020) and UN PRI/AQR responsible investment framework ("Clearing the Air: Responsible Investment", 2019)
- Consider adding to "Operating Principles for Impact Management" by IFC
- Consider adding CDC's "Code of Responsible Investing" – particularly relevant for private markets
- Consider AIMA's "ESG Considerations at Alternative Investment Management Firms"

CFA UK would also note that the list of regulations and standards provided do not seem to offer good coverage of all asset classes. We understand that the current landscape is fairly equities-heavy but would like to emphasise the importance of broader applicability as the Standard is developed further.

<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. The consultation paper's analysis of trade-offs between prescriptive and disclosure-based approaches makes sense, and we agree that a disclosure-based approach is preferable. Of the two approaches, it is also the more consistent with CFA Institute's role.

Ultimately, neither approach by itself is necessarily better at promoting transparency or comparability (prescriptive approaches offer comparability among a smaller set of products and demand a set of details the prescriber has deemed to be sufficiently transparent), but a disclosure-based approach provides more comfortably for the wide variety of ESG-related products available now and likely to launch in the future. It also provides for different approaches to ESG data utilisation, while still allowing a forum to interrogate that.

The final challenge cited for disclosure-based approaches feels somewhat tongue-in-cheek! Still, it raises an important point about readability, which we explore in Question 9.

<QUESTION_04>

Question 5: Do you agree that the Standard should focus only on product-level disclosures and not firm-level disclosures?

<QUESTION_05>

CFA UK agree that the Standard should be primarily focused on investment products. There should be room for relevant firm-level disclosures (example topics below), but these additional disclosures should be made in the context of the product itself, in keeping with the focus of the Standard.

We would also support a shorter, separate firm-level disclosure, if it were sufficiently different from e.g. TCFD/Stewardship Code/UN PRI reporting. (This would be more consistent with GIPS, though could raise more questions with regards to independent examination.)

A firm-level disclosure, like "comply or explain" Stewardship Code formats, might be particularly helpful for asset managers without specific ESG investment products. As discussed in Question 35, a firm-level disclosure might also be the best place for some to outline their engagement approaches, or broader corporate social responsibility initiatives not related to individual products but of potential relevance for investors' due diligence.

There are different options for the presentation of a firm-level disclosure; for example, a space for applicable firm-level considerations could be provided in each feature, or it could stand alone. Such a disclosure could be a recommendation or suggestion, as opposed to a requirement, but irrespective we would suggest clear topics to cover (specific questions about resourcing, ESG philosophy/approach/history, firmwide stewardship or sustainability initiatives, etc.). We would also suggest that firms with ESG webpages or downloadable ESG statements could simply be encouraged to make updates covering these specific topics if they don't already, which could ease the perception of an additional reporting burden.
<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. The Standard is being constructed such that it can capture all manner of investment products with ESG-related features, so an asset manager should not be allowed to cherry-pick certain ESG-related products of theirs, or certain requirements of the Standard, for compliance. The requirements should reflect a minimum to enable comparability. That said, we acknowledge that as a practical reality the onus to identify which of their products has ESG-related features obviously has to rest with the asset manager.

As alluded to in Question 2, it is not immediately straightforward how managers are expected to define "products", currently seeming to be some combination of broad strategy (like a GIPS composite) and specific vehicle. More clarity on this point would be useful. That might enable managers to produce a complete list, similar to the complete list of composites, available as an accompaniment to their disclosure document and indicating which products are not ESG-related with a recommended short note on why.
<QUESTION_06>

Design Principles

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

<QUESTION_07>

We would suggest removing “aligned”. Since (as the standards clearly mention) there is less clarity around what terms mean for different audiences, seeking alignment with terms used by other organisations – especially when these do not necessarily have the same meanings from organisation to organisation – should not be a grounding principle, though of course we recognise the centrality of this exercise to developing the consultation paper

Using “familiar” terms is a sensible design principle, but the Standard should aim to precisely and unambiguously define these as CFA Institute sees fit for the industry. It is also a question of how CFA Institute might encourage existing (divergent) definitions of other providers to eventually coalesce around the Standard’s definitions.
<QUESTION_07>

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

<QUESTION_08>

Yes. These design principles are clear and comprehensive. In particular, the third principle is compelling and attests to the benefit of not adopting a prescriptive approach noted in Question 4.

We do question the principle prioritising content over format. While it is reasonable to provide some flexibility in how information is presented, in order to promote the comparability the Standard aims for, there must be a degree of consistency in presentation of the disclosures; some standard template seems a necessity given the content.

Is this intended to address the question of where these disclosures should “live” (e.g. public website, website behind log-in, offering documents, presentation materials, upon investor request, etc.)? We agree with the provision of flexibility there, especially given the level of detail requested, which may in some managers’ cases still be viewed as containing proprietary information. Certainly, in moving toward the next phase of a draft Standard, CFA Institute should bear in mind an important goal of broad take-up.
<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>

It is not clear if this question refers to the comprehensive set of a manager’s disclosures across all relevant investment products, or to a manager’s disclosures for a given investment product.

- If the latter, yes, a single document is the most investor-friendly to review, and the most manager-friendly to produce.
- If the former, this would depend, crucially, on the possible formats mentioned in Question 8, and on the extension of the Standard to firm-level disclosures. A manager could maintain a combined document with all investment product disclosures and firm disclosures, separating out product-level disclosures for different mediums.

We are reluctant to propose the imposition of word-limits, but would like to stress the importance of readability and appropriate levels of information (too much and the disclosures may be ignored or only skimmed, too little and they will lose value). Sample disclosures in an accompanying User Guide could be a helpful reference point here.
<QUESTION_09>

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

<QUESTION_10>

We agree with basing this on individual products rather than on the firm. However, this design principle seems to be constructed differently than the others. If the main goal is "assurance that the disclosures offer a fair representation of the investment product", perhaps one design principle should be "investment product basis", but another might be "objective review" and "minimum confirmation of representativeness".

There is also the question of who these independent examiners might be. Does this involve creating a new industry of "ESG-verifiers"? Will there be a qualification process overseen by CFA Institute? Can firms leverage existing ratings from e.g. UN PRI?
<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 are very sympathetic to the benefits of independent examination but have some questions and concerns about its feasibility.

Some of the information contained in the disclosures will be clearly testable against policies, other reporting, etc., but evaluation on that basis could easily be done by an investor, and probably should/would be as part of a typical due diligence process for an institutional investor or a financial advisor. Other information in the disclosures will be less objectively assessable. We would like to see clear sample protocols for independent examination before it is established as a requirement or recommendation (and irrespective believe it should be treated similarly as GIPS verification, i.e., recommended but not required).

Other considerations include: frequency of verification vs. frequency of disclosure update (the current guidance seems to suggest it is at the manager's discretion what constitutes a material change, or perhaps these will be requested to be refreshed every 1, 3, etc. years); consequences if a manager pursues independent examination and, finding the results unfavorable, ceases; and, as highlighted in our response to Question 10, creation of independent examiners for this space vs. UN PRI (which provides ratings at least at the asset class level).

<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>

If the aim is to provide an objective review and provide assurance that "what you see is what you get", as noted, and if independent examination is achievable, then certainly both design and implementation are relevant, and this could be helpful to test for greenwashing. Verification of design alone seems comparatively unhelpful, though per our response to Question 11, easily/naturally done without a separate independent examiner.

<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>

- The first requirement could be combined with the third and fourth ("Description of the investment product's investment mandate, objective, or strategy, including investment universe and benchmark as applicable"). It does not seem necessary to specify "prior to any exclusions" for the universe; managers applying ESG exclusions and triggering Feature B have to explain the exclusion process anyway, and other managers may make exclusions on the basis of e.g. liquidity, but not ESG, and wish to describe that here. We agree it is useful to explore the benchmark, as in many cases, based on investor demand, ESG-related products are benchmarked against the traditional cap-weighted index with no ESG considerations. That presents a potential tracking error issue relevant to a statement of performance objectives.

- Instead of "time horizon of the ESG investment analysis", which is vague (is this meant to indicate a difference to non-ESG analysis? Is this a question of how long the product has been using ESG analysis or how far back ESG-related data extends?), perhaps there could be a specific requirement for "Description of the product's incorporation of ESG, including its historical development as well as specific forward-looking ESG objectives".

- “Monitoring and review procedures” could be ESG-specific or not. We might suggest modifying this to make specific reference to evaluating success relative to specific ESG objectives and overall alignment with investment objectives. Depending on the aim here, it might be useful to request explicit reference to ESG governance, risk management, etc., from the perspective of the specific product. This is an area possibly better captured in a firm-level disclosure.

<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, it is reasonable to include alignment with policy goals like the UN SDGs (or Paris Agreement/Net Zero) in the general disclosure requirements. Including this in the feature-specific requirements seems to verge on the prescriptive, and in any case almost all features can be tied to e.g. one or more of the SDGs, so it is more informative as part of the general disclosures. We would note that currently an asset manager’s ability to meaningfully respond to this varies widely across different asset classes.

Should such alignment be added as a disclosure requirement, we might suggest something like “Whether the investment product is aligned with intergovernmental goals (e.g., the UN Sustainable Development Goals, the Paris Agreement), and if so, procedures to assess the efficacy of this alignment.”

<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>

Similar to the SDGs, most features can be tied to this in some form. Entities in scope of SFDR may view it as superfluous to have this as a disclosure item given that this is becoming a legal requirement. However, given CFA Institute’s hope for broader global take-up, this should be added to the general requirements with some clearer phrasing (mentioning SFDR in parentheses but just briefly outlining what the no-harm provision involves).

In this case, we might propose breaking out “the ESG-related or sustainable labels and standard with which the investment product claims compliance” into two requirements: first, the enumeration of any ESG-related or sustainable labels to which the product claims compliance, and a second, separate requirement asking about consideration of principal adverse impacts in the decision-making process for the 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>

Yes, while some may note that *all* of the features involve ESG integration, this is a familiar/simple term referring to a holistic assessment of an investment's prospects using all available (financial and non-financial) data related to ESG factors. Importantly, ESG integration does not ex ante preclude any investment, separating it from screening-related features.
<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>

Yes, the definition of Feature A appears consistent with CFA Institute's position statement on what is there called "ESG factoring". The academic literature* on ESG integration is also generally sympathetic to the idea that some amount of ESG information (generally proxied by G historically) is required for any optimal allocation.

* see as examples in a broad literature:
- "ESG and financial performance: aggregated evidence from more than 2000 empirical studies". Friede, Bush, and Bassen (2015). Journal of Sustainable Finance & Investment, Vol. 5, Issue 4
- "From the stockholder to the stakeholder: How sustainability can drive financial outperformance". University of Oxford and Arabesque Partners (2015). Available at SSRN
- "Corporate Sustainability: First Evidence on Materiality". Khan, Serafeim, and Yoon (2015), Harvard Business School. The Accounting Review: November 2016, Vol. 91, No. 6
- "Responsible Investing: The ESG-Efficient Frontier". Pedersen, Fitzgibbons, and Pomorski (2019), NYU Stern School of Business. Available at SSRN and via UN PRI blog

CFA UK would note that the requirement for 'some' inclusion of ESG factors in investment processes should make Feature A relatively accessible for funds to comply with. As a consequence, CFA UK notes the critical importance of the detail of the disclosures required under the standard and we refer you to our answer to question 19.
<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>

The current definition is clear. We note the mention of “slight differences between the definitions” in the Alignments section as consistent with our suggestion in Question 7.
<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>

- It is not clear if a description of “specific methods” should make use of the language in the Examples section. We assume not, and to that end are not sure about the examples as they are. These are fairly general analytical tools, and it is not clear if “equity and credit analysis and valuation” is intended to map to asset allocation and security selection (we assume at least to the latter). Perhaps this example section could include a few specific examples, per Question 9 in some kind of accompanying User Guide for the Standard, like a case study of “E” or “G” integration. If additional context around integration is desired, the Standard could suggest that managers explain how they handle both valuation and risk.

- The requirements include sources of ESG data. We would propose adding some verbiage about how data integrity is ensured and how the data is used, especially in the case of third-party ratings providers.

<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>

We think that the name of the feature is adequate for its purposes, i.e. covering static and dynamic negative exclusions on the basis of ESG.
<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>

Yes, an ESG-Related Exclusions feature can comfortably accommodate norms-based screens and negative ESG screens.
<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>

There is some ambiguity in "exclusions related to ESG matters". While it is useful to keep this broad, maybe this feature definition could make specific reference to the possibility of static and/or dynamic exclusions.

The distinction between values/faith-based exclusions and norms-based exclusions in the notes seems confused. We would suggest reference to norms-based exclusions as including both societal norms (which vary – Sharia-compliance is an example) and organisational values. There are still other reasons for ESG-related exclusions, for example a conviction in a material financial impact from climate change, which could be highlighted as well, both in the "benefits" section (this could be expanded to include the avoidance of adverse impacts) and in the notes.
<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>

We would suggest that the second requirement be accompanied by some colour on how the exclusions are monitored.

The third requirement does not seem especially meaningful by itself. It might make more sense to combine the third and fourth requirements, and be clear about "impact" of the exclusions (risk? Return? Both?). For example: "a description of the asset manager's investment universe and the extent of its truncation, including an assessment of the impact on risk/return profile". We do not necessarily suggest specifying this but note that that impact is interesting in terms of ex ante expectations and realised results (though the latter relies on some "standard" non-ESG-related proxy portfolio as a comparator).

This is a potential area for a firm-level disclosure, as exclusions may be product-specific but in other cases may be specific to a broad suite of sustainable strategies or even applicable across the firm.
<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>

No. "Best-in-Class" has specific connotations that exceed simply a positive ESG tilt. We feel this feature should be more accommodative of all positive-tilting approaches. We might suggest "Positive ESG Screening", or "Positive ESG Tilt".

Generally, best-in-class would select securities with, of course, superior ESG scores relative to their peers. At any given point, best-in-class will only invest in the best ESG-rated companies, even if their relative ratings are declining. In contrast, a strategy with a positive ESG tilt – implemented dynamically – will invest in the best ESG-rated companies but also allow for positive ESG momentum. A positive ESG tilt does not necessarily translate into a positive ESG performance profile, though, depending on how "performance" is defined; the tilt certainly means better ESG characteristics, but those may or may not result in higher overall returns.
<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>

Yes. However, while this feature is clearly distinct from integration, thematic, impact, and stewardship, the current wording makes it difficult to disentangle from Feature B. We do not think that exclusions should be mentioned in this feature. It is likely that managers pursuing a positive tilt (beyond integration, which generally considers ESG on equal footing with other factors) will also have some exclusions, but it is not a necessity, and vice versa.
<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>

Yes, the "function" definition is sufficiently broad to capture the approaches mentioned above, and "examples" helpfully includes mention of ESG ratings as well as some specific key performance indicators. We are unsure about the last sentence in examples ("investment products that take this approach are often characterised as ESG tilt or ESG overlay"). What is this supposed to be distinguishing – products which are just an E or S or G tilt? What qualifies as an "overlay" in this context, i.e. at what point is a consideration of ESG KPI not part of the central portfolio construction process? This does not seem additive, and instead of mentioning tilt/overlay here we would propose simply renaming the feature to include "tilt".
<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>

- We would reiterate our Question 19 point about caveating data usage.

- Additionally, we might add an “if applicable” before the last requirement around benchmarking.

- Consistent with our suggestion in Question 23, it might be useful to ask for an assessment of (expected/realised) performance impact here too.

<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>

Yes, this is a clear and appropriate name.
<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>

There is heavy overlap between thematic and impact investing. For example, impact investing is frequently done thematically. However, we acknowledge that “thematic” funds are viewed as a sui generis category in the current market, so it is important that this feature be separate to accommodate those managers.
<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>

Thematic ESG strategies are not necessarily tied to long-term macro trends, or even structural ESG-related trends. We might steer clear of the use of “trends” here, preferring *themes* related to ESG matters (e.g. water, sustainable food production, healthcare). This would also be a sensible place to mention the SDGs.
<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>

We were surprised by the comparatively light touch on disclosure requirements. Specifying more details around the “where and how” would be useful, like constraints, sources of data, method of

implementation and monitoring, etc. Given the occasional overlap between thematic and impact, we would also suggest requiring details around the product's objectives.
<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, but we would propose adding "ESG" to the feature name, i.e. "ESG Impact Objective". Virtually all of the other features have "ESG" in the name. This will also help clarify that any given Impact Investing strategy does not necessarily trigger disclosure based on this feature; only approaches with specific ESG impact objectives are relevant. We feel that "ESG Impact Objective" also clarifies the extent to which an ESG impact should be on equal footing with other investment objectives.

Focusing only on E/S is an interesting choice. Is the intention that "G" just relate to activist investors, perhaps captured in Feature F? Some direct lending funds may seek better "G" in pursuit of sustainable impact, for example.
<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>

Yes, the definition is clear.
<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>

We are unsure about the separation and ranking of impact and investment objectives. An impact objective will necessarily be an investment objective for such products – alongside other investment objectives like return and risk targets. This could be updated to explain specifically how financial returns are generated alongside ESG impact, and how ESG impact objectives and other applicable investment objectives are defined and measured.
<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>

No.

We would suggest renaming this to “Responsible Ownership”, in keeping with PRI terminology, or “ESG (-Aware/Related) Ownership”. With this label this category should be able to encompass ESG-aware proxy voting, engagement, ESG-aware activist investing, and ESG-aware direct management.

While in some products engagement is a specific feature, this is not the case across the board. Here too a firm-level disclosure would be useful, helping clarify asset managers’ individual and collective actions.

CFA UK also struggles with the inclusion of ‘proxy voting’ in the title. Firstly, proxy voting is entirely possible to do with no consideration of ESG, and likewise “stewardship” could just be seen as fulfilling a fiduciary duty. Secondly, there are some practical issues to consider, for example, in relation to government bond funds: non-residents may be denied voting rights or struggle with engagement activities with sovereigns in the classic equities sense; proxy voting only becomes a feature for sovereign issuers at the default stage.

We would argue that a product should not be deemed “ESG” if it does not consider responsible ownership or ESG factors in addition to responsible asset selection. However, we are cognisant that there are managers with ESG-related products based on one or more of the other Features in this consultation paper who may not take ESG into consideration with their voting or other stewardship activities, and it is still a useful data-point if someone discloses based on one or more of the other Features in this consultation paper and not this one. Over time, our hope is that all proxy voting and engagement will become ESG-related in some form, which would recalibrate this feature to include only ESG-activist/ESG-aware direct management approaches. The detail of the disclosures of how the asset manager achieves this will be particularly helpful as we note in our response to question 38.

<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>

As noted in our answer to question 35, we do feel that this should be a distinct feature to accommodate the multitude of approaches to responsible ownership, but we suggest renaming and considering how those with a clear firmwide approach to stewardship should describe it. We also suggest carefully monitoring disclosures on this feature, with an eye to eventually moving “stewardship activities” to be a disclosure requirement in the other features and reworking this one to allow specifically activist/direct management activities.

<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>

The current definition is inadequate. It should make specific reference to ESG. Merely using one's ownership rights (through a third-party provider or entirely oneself) does not qualify as an ESG-related product feature.
<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>

- In order to encompass responsible ownership more broadly, further issues need to be added, with a focus on identifying relevant objectives and testing for how they are monitored.

- It is not clear if "policies and guidelines" is intended to summarise existing policies or facilitate some kind of dissemination of them. This could be clarified (we might suggest confirmation that there is a policy, a brief outline of a stewardship philosophy, and frequency of updates to the policy).

- Requirements 3-5 also speak to the question of ownership vis-à-vis the investment process and asset managers might be asked to describe, for example, what is their process for ensuring a purposeful feedback loop is in place?

<QUESTION_38>

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

<QUESTION_39>

With the modifications proposed, yes, the features are accommodative of all of the ESG-related product types we can identify.
<QUESTION_39>

<u>Proposal for Classification of ESG-Related Features According to ESG-Related Needs</u>

Question 40: Does this list of ESG-related needs represent the spectrum of investors' ESG-related needs?

<QUESTION_40>

Yes, the main needs are broadly categorised here, but for any given investor there is a spectrum of relevance – and as mentioned, there are questions around financial considerations (cost to a given portfolio company of potential stranded assets, say) vs. "ESG-aware" considerations (also stranded assets, but from the lens of managing climate change).

We appreciate that this was an important step in the earlier process but are not sure it bears much relevance on the formalisation of the Standard, once the features are in place. Rather, it might be best-suited to an aforementioned User Guide.
<QUESTION_40>

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

<QUESTION_41>

They are differentiated but not mutually exclusive, no, and nor should they be; as the consultation paper observes, investors may have a variety of needs and accommodate each in different ways through their portfolios (with some impact managers, some positive-tilting managers, etc.).
<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 would avoid the idea of a "classification" here, instead viewing it as a mapping exercise. Ultimately, the needs are fairly simplistically-stated. This will be more helpful for some kinds of investors and advisors than others.

In light of our comments on the specific features:

- Need 1 definitely requires Feature A, but we are unsure why the only other tagged feature is F. We are also wary of not selecting other features, given the various reasons why people make exclusions or positive tilts (some are risk-oriented, for example). Maybe this should just be tagged to A, and rephrased as "I want to know that ESG factors are explicitly considered in my investments such that they are intended to improve the risk/return profile."
- We question why Feature F is not tagged for Need 2.
- We might suggest rewording Need 4 to something more like "I am interested in investing based on different E/S/G themes." That is based on our comments to Feature D, but we also note that the use of "capitalise on" suggests a positive financial return.
- The description of Need 5 could also be refined, and we are unsure why Feature F was selected. Perhaps "I want to make a measurable contribution to an ESG need, problem, or goal", which could trigger both based on our "Responsible Ownership" proposal.

<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>

We generally agree with the user benefits, with the caveats related to the matrix noted above.

We would express a concern that independent examination is linked most closely to individual investors; this suggests that independent examination could act as a badge/label, which the consultation paper explicitly states it wishes to avoid. We refer to our responses to Questions 10-12 for more.
<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>

These terms seem reasonable.
<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

We would like to note a few other issues for general consideration:

- Asset class applicability: The features allow for approaches across asset classes, but undeniably some lend themselves more naturally to particular features than others. We suggested an equity/fixed income case study for the ESG Integration feature in our response to question 19. However, it could be helpful to have case studies for other asset classes (sovereigns, commodities, etc.) and maybe also a User Guide to make some reference to hedge fund implementations, multi-asset considerations, and illiquids too. At least this generates discussion in other asset classes where ESG may be less obviously entrenched (and the data even less good) than equities.

- Active vs. passive: There is no particular reference made to the latter throughout, which we agree is fine, but we are conscious that with the explosion of ESG indices, it would be very valuable for passive managers to adhere to the Standard where relevant too.

- Firm context: This depends on how firm-level disclosures are incorporated, but we are supportive of a recommendation to explain where a given product sits in terms of benefiting from ESG resources in the wider firm or as a particular focus of a given fund/manager.

<GENERAL_COMMENTS>