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.

<u>Guidelines for submission</u>

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.

<u>Requirements for submission</u>

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.)*	Indian Association of Investment Professionals (CFA Society India)
Stakeholder Group: *(Please select the stakeholder group with which you most closely identify.)*	Choose an item.
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.)*	Asia-Pacific
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.)*	India
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

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>

Yes, every product uses a different definition, making it difficult for investors to compare them based on ESG-related features. So, standards from a credible institute would be much welcomed.

<QUESTION_01>

Terminology

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

<QUESTION_02>

For the definition related to 'Asset Manager', we need to define the word entity so that it doesn't remain ambiguous. Also, for the term 'Investment Product', are direct investments also considered?

<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>

With regard to issuer disclosures, World Economic Forum (WEF) is also working on a consultation paper in association with Deloitte, EY, KPMG and PwC, drawing on many existing standards. Additionally, we may also want to pay attention to standards and disclosures prescribed by local market regulators or local laws.

<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. We observe that certain funds use multiple responsible investing approaches and investors may have different perspective on ESG parameters. As a result, a disclosure-based approach would be more helpful to allow investors to determine how well such investment products meet their ESG-related needs<QUESTION_04>

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

<QUESTION_05>

No, it is necessary to have firm-level disclosures because a firm offering ESG products without complying with ESG parameters contradicts the purpose. Various institutions, including asset owners, plan trustees and consultants may also be interested in firm-level components regarding ESG, such as stewardship components, firm's commitments to ESG approaches and firm-wide policies. Irrespective of the decision, the firm should still comply with the 'Asset Manager Code'. <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>

Standards should be applicable to all investment products with ESG-related features.

<QUESTION_06>

<u>Design Principles</u>

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

<QUESTION_07>

Yes, we agree with the design principles.

<QUESTION_07>

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

<QUESTION_08>

We also need to consider a standard format in addition to the content. Disclosure of both content and format should be priority, given that the intention is to allow investors to compare investment products.

<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>

A single document with standardized format would be easier for investors to understand and compare products. However, an asset manager may also want to publish independent documents for different ESG products, along with the single document. <QUESTION_09>

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

<QUESTION_10>

Independent examination should be a recommendation – but should ideally be performed both at the firm level and on the individual investment products, as part of the operational due diligence process.

<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>

To start with, it should be recommended as best practice, but should be made a requirement over the subsequent years, providing asset managers sufficient time to comply with the standards.<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>

The independent examiner should examine the disclosures relative to both design and implementation, so that an investor can make a holistic view of whether her/his objectives are being met. This will also help address the issue of green washing that is prevalent in certain products.

<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>

Please find our annotations below for specific points.

Description of the investment product's investment mandate, objective, or strategy

With regard to this point, the disclosures should separately define the financial outcomes of the strategy (E.g. income generation, capital appreciation, capital preservation, inflation protection, where does the product strategy fall on the risk reward matrix, etc.) as well as sustainable outcomes (e.g. alignment with which SDG goals/ can be anything else?) that can be achieved through the investment product.

Time horizon of the ESG investment analysis –

Time horizon should be bifurcated into two parts – i) time period for which companies are being analyzed prior to inclusion, etc., and ii) since when did the firm start considering ESG factors while maintain the investment product until the point of submission.

Additionally, the document needs to provide more clarity on whether the disclosure needs to be only about the product's ESG analysis in general or for every ESG factor as part of analysis. For example, controversies related to lawsuits may be relevant only for the recent time period, say 6 months to 1 year, while the broader set of factors related to environment, social and governance issues may have longer time horizon.

Additional Points –

Although the paper has covered proxy voting separately as a feature, proxy voting related policies of the firm with respect to the investment product should also be included as part of general disclosure requirements.

<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, if the strategy aims to align with certain policy goals, the general disclosure requirements should include sustainable outcomes or policy goals that can be achieved through the investment product.

<QUESTION_14>

Question 15: Should the disclosure requirements include an explanation of whether, and if so how, an investment product considers principal adverse impacts on sustainability factors and where to find additional information, as required by Article 7 of Regulation EU 2019/2088 Sustainable Finance Disclosure Regulation?

<QUESTION_15>

Yes, such information will be able to help investors what material risks are considered as part of the investment strategy.

<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, the name is clear and appropriate.

<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>

It would be helpful if disclosure requirements require the investment manager to provide a security specific example of how ESG factors have informed past investment decision-making for the particular investment product.

<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>

Yes, it's clearly defined.

<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>

Additional disclosure requirements that can be considered are –

- Which ESG factors were material while integrating ESG in the investment process
- Security specific examples of how ESG factors have informed past investment decision-making
- What resources (analysts, systems, or research) are used to identify and assess ESG risks
- Material changes, if any, to the ESG initiatives in the investment approach in the last 12 months
- How the investments within the portfolio are monitored continuously for ESG risks

<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>

Yes, the name is clear and appropriate

<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, there are slight differences between “negative screening” and “norms-based screening”, but “ESG Related Exclusions” as a feature name is appropriate. “Negative Screening” refers to exclusion of sectors or companies based on specific ESG factors, while “Norms-based screening” refers to minimum standards defined by certain norms (for example, UN Global Compact Principles promotes respect for people and the planet). Additionally, any differences regarding the above two terms can be covered in the disclosure requirements section.

<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>

No. The current language suggests that this feature is relevant to exclusions related to ethical principles, values, religious beliefs, and/or societal norms. However, there can also be other types of exclusions, such as industry, country, companies with controversies. Would such strategy be covered under the feature “ESG Integration”? In either case, this feature should be clearly defined.

<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>

Disclosure requirements can also include impact on financial performance of the investment product – due to negative screening or exclusions. But since including such metrics can have operational challenges, it should be recommended/suggested rather than required. Additionally, if they are not blanket exclusions, and are rather based on revenues threshold, say company tobacco production revenues >50%, such thresholds may be disclosed.

<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>

There is a good level of ambiguity regarding this name. For example, if the strategy incorporates tilts based on ESG factors, the product will still include worst performers, making the product no longer "best"-in-class. There can be other names such as ESG Leaders or ESG Focus, but even these names face similar challenges. The name "Positive ESG Performance Profile" is also not clear.

<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

<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>

Please refer to comments regarding Q24.

<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>

Disclosures can also include impact on financial performance of the investment product – due to the positive tilt or screening. But since including such metrics can have operational challenges, it should be recommended/suggested rather than required.

<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, it is clear and appropriate.

<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>

Yes, it is distinct enough.

<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>

Yes, it is clearly defined.

<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>

Disclosures should also cover the philosophy and thresholds pertaining to such themes. Also, if there’s any material change to the thematic focus in recent times, it should be disclosed as well.

<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, it’s an appropriate name.

<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, it's clearly defined.

<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>

Any material risks impacting the impact objective, such as regulatory, social, political or natural risks, should be included. Also, since such strategies may also have drawbacks while trying to make a positive impact, drawbacks may be disclosed for this feature. For example, a strategy focused on renewable energy may have wind energy companies that may lead to deforestation or impact marine life.

<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>

Yes, the name is clear and appropriate.

<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>

Ideally it shouldn't be considered a distinct feature. Every firm managing an ESG product should cover issues pertaining to stewardship as part of general disclosures (See Q13). But in regions where standards may not be high and the firm has a higher standing pertaining to ESG factors while voting, only then the product should be able to claim this feature.

We also feel that this feature is predominantly inclined towards equity strategies.

<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>

Yes, it's clearly defined.

<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>

Proxy voting related process and guidelines should also be disclosed, so that investors can make an informed decision.

<QUESTION_38>

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

<QUESTION_39>

Yes, they do cover the entire spectrum.

<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>

Yes, the list represents the spectrum of investors' ESG- related needs.

<QUESTION_40>

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

<QUESTION_41>

No, these needs are not mutually exclusive. Additionally, an investor can have multiple ESG-related needs.

<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>

Point 3 should be reframed to the following so that it can be mapped to "ESG-Related Exclusions" –

*"I want to make investments that I believe have relatively fewer negative effects, and****/or*** *more positive effects, on the people and things I care about and the world in which I live"*

<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>

Yes, the description is apt.

<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>

Yes, we agree with the terms. Even regulators can be included as part of this section.

<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

This is a great step towards harmonizing a framework that can be adopted by multiple stakeholders. However, developing a successful ESG disclosure standards should also entail a collaborative approach in which other organizations that have worked towards setting up the investment approaches (examples - IA Responsible Framework and GSIA definitions) should also have a say. Consequently, CFA Institute should take an initiative towards collaborating with such organizations. In addition, regulators should also be considered while creating these standards, since they are one the major stakeholders as well.

<GENERAL_COMMENTS>