

## Swiss Sustainable Finance response to CFA consultation on the development of The CFA Institute ESG Disclosure Standards for Investment Products

### 1. Introduction and background

In an effort to address market participant concerns of inconsistency and variation in ESG-related terms, investment approaches, and disclosures leading to confusion and misunderstanding between investors and asset managers, the CFA Institute is attempting to create a standard to improve comparability and transparency.

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 CFA Institute is not seeking to define what constitutes an ESG or sustainable investment product or strategy or to make determinations about the relative strength of any one ESG-related investment approach versus another. Rather, the Standard will establish disclosure requirements so that investors can more easily understand the features offered by a particular investment product and make comparisons among investment products.

In the scope is included:

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

Out of the scope is:

- Establish disclosure requirements for corporate issuers
- Prescribe requirements for the labelling 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 of investment products
- Advance principles to be used in investment decisions

You can also view the [CFA Institute webinar](#) which introduced this initiative for more insights.

The consultation includes general questions regarding the planned disclosure requirements as well as specific questions related to each of the six identified “ESG-related features”<sup>1</sup>:

- ESG Integration
- ESG-Related Exclusions
- Best-in-Class
- ESG-Related Thematic Focus
- Impact Objective
- Proxy Voting, Engagement and Stewardship

The CFA Institute is [currently collecting feedback through a consultation](#). In the following table, SSF has inserted its opinion on specific question.

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<sup>1</sup> The CFA Institute defines a ESG-Related Feature as 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.

## 2. SSF answers to CFA Institute consultation questions

Question	SSF response
<b>Questions on the topic of Market Needs</b>	
<b>Q1</b> Do you agree that a standard is needed to help investors better understand and compare investment products with ESG-related features?	YES – this will support also the data flow between issuers of financial instruments, data vendors and investment firms
<b>Questions on the topic of Terminology</b>	
<b>Q2</b> Are any of the defined terms ambiguous? If so, how could they be clarified?	ESG Matters and ESG Factors are not entirely clear to us. It would be useful to add concrete examples of what is meant. With ESG Matters do you mean ESG Issues/Topics (i.e. climate change, inequality)? And with ESG Factors do you mean specific indicators (i.e. CO <sub>2</sub> emissions, board diversity)?  In addition, features = approaches
<b>Questions on the Purpose and Scope</b>	
<b>Q3</b> 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?	We feel the following could be added to the table: <a href="#">FNG Label</a> <a href="#">ISO / TC 322</a> <a href="#">Eurosif: European SRI Transparency Code</a> <a href="#">SFAMA/SSF guidelines</a>
<b>Questions on Investment Product Disclosures</b>	
<b>Q4</b> 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?	YES
<b>Q5</b> Do you agree that the Standard should focus only on product-level disclosures and not firm-level disclosures?	NO, we do think there are certain aspects around governance and risk-management for which firm level disclosures make sense. For instance, overall sustainability commitment and policy of the firm or investment governance.
<b>Questions focused on ESG-related Features</b>	
<b>Q6</b> 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?	YES

Questions on the topic of Design Principles	
<b>Q7</b> Do you agree with the design principles for definitions of ESG-related terms	YES
Questions on Disclosure Requirements	
<b>Q8</b> Do you agree with the design principles for disclosure requirements?	NO, To point 2) we do think there are certain aspects around governance and risk-management for which firm level disclosures make sense. For instance, overall sustainability commitment and policy of the firm or investment governance. To point 3) we feel that a certain level of “close-ended” questions should be applied. For instance, which approaches are used or which exclusions are applied. Here a list of commonly used items could be compiled and provided by CFA.
<b>Q9</b> 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?	YES, we agree with a single document. However, there should be flexibility to refer to other easily accessible documents.
Questions on the topic of independent examination	
<b>Q10</b> Do you agree with the design principle for independent examination?	We largely agree, except that the existence of some overarching policies and processes should also be considered.
<b>Q11</b> Should independent examination be required, or should it be recommended as best practice but ultimately left to the discretion of the asset manager?	We feel, to start, the independent examination should be recommended as best practice but left to the discretion of the asset managers.
<b>Q12</b> 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?	This can be left flexible as long as there is disclosure on what was examined.
Questions on the topic of Design Proposals	
Questions about the Proposal for General Disclosure Requirements	
<b>Q13</b> Do you agree with the scope of the general disclosure requirements? Are there topics that should be added, deleted, or modified?	No comment

<p><b>Q14</b> Should the disclosure requirements address an investment product’s intention to align with policy goals, such as the UN Sustainable Development Goals<sup>10</sup> (SDGs), and if so, should these requirements be part of general disclosure requirements or feature-specific disclosure requirements?</p>	<p>NO – this can be a recommendation to align to global goals or treaties but not a requirement.</p> <p>Perhaps for companies subject to specific regulatory requirement (such as EU SFDR), this can be mentioned in their disclosures. to</p>
<p><b>Q15</b> 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?</p>	<p>No comment</p>
<p><b>Questions on the Proposal for ESG-Related Features and Feature-Specific Disclosure Requirements</b></p>	
<p><b>ESG Integration</b></p>	
<p><b>Q16</b> 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.</p>	<p>YES</p>
<p><b>Q17</b> If an investment product had Feature (A), and only Feature (A), as defined, 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.</p>	<p>YES</p>
<p><b>Q18</b> Is Feature (A) clearly defined? If not, please explain how the definition could be made clearer or more precise</p>	<p>The term “Explicitly considers” seems rather vague. We feel there needs to be a more binding element. At SSF we solve this by stating that only products which systematically incorporate ESG considerations into the investment process are considered ESG integration (see page 7/8 of our <a href="#">market study guidelines 2020</a>)</p>
<p><b>Q19</b> 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?</p>	<p>The fourth point is most likely proprietary information and we find it would be difficult to put into a reporting. We feel especially in the case of ESG integration it is hard to separate the performance contribution of ESG as it is an inherent</p>

	part of the analysis. We feel that one can indeed provide a description on a qualitative level, but this may not be possible on a quantitative level.
<b>ESG-Related Exclusions</b>	
<b>Q20</b> 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.	YES
<b>Q21</b> 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.	This is perhaps problematic for “norms-based screening” as it is understood to be a process in which you identify possible exclusions and frequently engage with companies before excluding them. See page 9/10 of our <a href="#">market study guidelines</a> 2020.
<b>Q22</b> Is Feature (B) clearly defined? If not, please suggest how the definition could be made clearer or more precise.	YES
<b>Q23</b> 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?	Yes, although in the case of a strictly bottom up investment process it might be difficult to obtain this information. We find bullet point 5 confusing and perhaps unnecessary.
<b>Best-in-Class</b>	
<b>Q24</b> 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.	YES
<b>Q25</b> 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.	YES
<b>Q26</b> Is Feature (C) clearly defined? If not, please explain how the definition could be made clearer or more precise.	Should CFA consider a minimum threshold for something to be considered Best-in-Class? E.g. If only 10% of universe is excluded, would this still be considered best in class?

<p><b>Q27</b> 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?</p>	<p>YES</p>
<p><b>ESG-Related Thematic Focus</b></p>	
<p><b>Q28</b> 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.</p>	<p>YES</p>
<p><b>Q29</b> 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.</p>	<p>YES</p>
<p><b>Q30</b> Is Feature (D) clearly defined? If not, please explain how the definition could be made clearer or more precise.</p>	<p>YES</p>
<p><b>Q31</b> 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?</p>	<p>YES</p>
<p><b>Impact Objective</b></p>	
<p><b>Q32</b> 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.</p>	<p>YES. Yet, we expect that market players would use the term “impacting investing” as synonymous to your definition “impact objective”</p>
<p><b>Q33</b> Is Feature (E) clearly defined? If not, please explain how the definition could be made clearer or more precise.</p>	<p>YES</p>
<p><b>Q34</b> 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?</p>	<p>As to additionality, it is an extremely difficult request, as there are hardly any methods to prove additionality. The IFC Operating Principles for Impact Management therefore removed the request from a first draft. In addition, we do not think that a priority ranking of objectives is a request market players can easily comply with. In practice, the two objectives often have the same level of importance.</p>

Proxy Voting, Engagement and Stewardship	
<p><b>Q35</b> 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.</p>	<p>NO – We see “Stewardship/active ownership” as an overarching term under which two separate features (proxy voting and engagement) can be categorised. They involve very different processes and procedures which is why we think they should be listed separately. They could be listed in a joint subchapter. Voting is more a reactive form of stewardship while Engagement is a very active form of stewardship where the asset manager must formulate plans and strategies to interact with their investee companies.</p>
<p><b>Q36</b> 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?</p>	<p>YES, but see above</p>
<p><b>Q37</b> Is Feature (F) clearly defined? If not, please explain how the definition could be made clearer or more precise.</p>	<p>We think an important element within the function text is missing in the context of sustainable/ESG investing: If you aim to influence a company’s strategy and operations with regards to ESG factors, you need to build your stewardship activities on an ESG policy in which you define your overall principles on ESG matters (e.g. Board diversity, clear climate goals).</p>
<p><b>Q38</b> 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?</p>	<p>We think the Policies and guidelines for proxy voting and engagement should contain a clear statement on which of the three sustainability dimensions are covered (e.g. G only or E, S &amp;G)</p>
<p><b>Q39</b> Do the six features described fully cover the spectrum of ESG-related features currently offered in the marketplace?</p>	<p>We agree that the six features cover the dominating features currently applied in the market. However, we see that innovation continues and new forms emerge. One example is investment strategies with a clear and quantitative target to continuously reduce the CO<sub>2</sub>-footprint. Where would CFA place this strategy?</p>

Questions on the Proposal for Classification of ESG-Related Features According to ESG-Related Needs	
<b>Q40</b> Does this list of ESG-related needs represent the spectrum of investors' ESG-related needs?	We largely agree with the described needs. Yet, we think need no.4 is technically a sub-form of need no. 1. Having said this, we still think there can be value in listing it separately.
<b>Q41</b> Are these five ESG-related needs clearly differentiated and mutually exclusive?	See above
<b>Q42</b> 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?	We agree with most classifications, with 2 exceptions: <ul style="list-style-type: none"> <li>- We think ESG-related thematic focus also serves ESG-related need no. 3</li> <li>- We think stewardship (E&amp;V) does not serve ESG related need no. 3 (as you may be invested in companies with low ESG performance or even specific issues)</li> </ul>
Questions on the topic of Users and Benefits	
<b>Q43</b> Do you agree with the description of user benefits? Are there any benefits that should be added or deleted?	Yes we agree with the user benefits. NO we do not have additional benefits to recommend.
<b>Q44</b> Do you agree with the terms used to define the users of the Standard? Are there any terms we should include, or avoid using?	Yes we agree with the terms used. No we do not have additional terms to recommend.

### 3. Further information

#### Links to important documents

Documents linked to the consultation can be found at: <https://www.cfainstitute.org/en/ethics-standards/codes/esg-standards>

Zurich, 23 October 2020