CFA Institute

CONSULTATION PAPER
ON THE DEVELOPMENT OF

THE CFA INSTITUTE ESG DISCLOSURE STANDARDS FOR INVESTMENT PRODUCTS

August 2020

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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. Please refer to the "Providing Feedback" guidelines for submitting comments. **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 the designated Response Form and submitted to standards@cfainstitute.org. You may address as few or as many of the Consultation Paper's questions as you wish. A complete list of the Consultation Paper questions appears in Appendix B. This Consultation Paper and the designated Response Form are available here on the CFA Institute website.

The deadline for providing feedback is 19 October 2020. **Comments received after 19 October 2020 will not be considered.** 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.

Positive comments in support of a proposal are equally as helpful as comments that provide constructive suggestions for improvement.

Requirements for Submission

In order for comments to be considered, please adhere to the following requirements:

- Insert responses to numbered questions in the designated areas of the Response Form.
- Assign a unique file name to your Response Form before submitting.
- Provide all comments in English.
- Submit the Response Form as a Microsoft Word document.

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CONSULTATION PAPER ON THE DEVELOPMENT OF THE CFA INSTITUTE ESG DISCLOSURE STANDARDS FOR INVESTMENT PRODUCTS

CFA Institute Mission and Role in the Investment Industry

The mission of CFA Institute is to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. Setting industry standards is integral to the mission of CFA Institute, and CFA Institute is regarded as an influential global standard setter. CFA Institute industry standards and codes are developed with the collaboration of individual volunteers who represent asset owners, asset managers, consultants, service providers, and standard setters from around the world.

During the past 40 years, CFA Institute has developed, promoted, and maintained several key professional and investment industry codes and standards. The CFA Institute Code of Ethics and Standards of Professional Conduct set the benchmark for ethics and professional excellence for investment professionals in the investment industry. The Global Investment Performance Standards (GIPS®)[1] have been transformative in establishing transparency and comparability with respect to the calculation and presentation of investment performance. The CFA Institute Asset Manager Code[2] is a principles-based code that outlines an asset management firm's ethical and professional responsibilities to clients. Because of the global influence CFA Institute has in ethics and industry professionalism, many regulators look to CFA Institute codes and standards to inform their rule making.

CFA Institute Positions on ESG Integration

In January 2019, CFA Institute issued a policy paper, Positions on Environmental, Social, and Governance Integration, that expresses the organization's view that the consideration of relevant and material ESG information and risks is consistent with an asset manager's fiduciary duty and is required for investment professionals who adhere to the CFA Institute Standards of Professional Conduct.[3] The policy paper also states that CFA Institute encourages all investment professionals to consider ESG factors, where relevant, as an important part of the analytical and investment

[1] As of 30 June 2020, the GIPS® standards have been voluntarily adopted by more than 1,800 organizations in 48 markets.
[2] As of 30 June 2020, the Asset Manager Code has been adopted by more than 1,000 organizations in 51 markets.
[3] CFA charterholders, CFA Institute members, and CFA and CIPM program candidates are required to adhere to the Code of Ethics and the Standards of Professional Conduct.

decision-making process, regardless of investment style, asset class, or investment approach. In addition, it is the position of CFA Institute that marketing materials for ESG-related investment products and management services must include adequate and detailed disclosures explaining the specific ESG process being used along with periodic verification that the stated ESG process, analytics, and consideration of factors are occurring.

Market Needs

The interest in investment products with features related to environmental, social, and governance (ESG) matters[4] has grown exponentially during the past several years. Driving this growth has been an increasing awareness among investors of environmental and social matters, a greater availability of ESG data and information that can be used in investment decision making, and heightened regulatory focus on ESG and sustainable investment products.

Asset managers have been striving to address investors' ESG-related needs for more than 30 years. During this time, a myriad of terms, investment approaches, and investment products has evolved, including but not limited to: sustainable investing, socially responsible investing, responsible investing, ethical investing, impact investing, green finance, divestment, triple bottom line, conscious capitalism, ESG integration, values-based investing, exclusion, positive and negative screening, best-in-class, ESG overlay, ESG tilt, engagement, active ownership, and shareholder advocacy. The definitions of these and a multitude of other terms and methodologies have lacked consistency and universal meaning.

Many market participants are concerned that inconsistency and variation in ESG-related terms, investment approaches, and disclosures have led to confusion and misunderstanding between investors and asset managers that may, over time, lead to erosion of trust in the industry. The substantial interest in, and resources and capital devoted to, investment products with ESG-related features have prompted a growing number of investment professionals and market participants to call for the development of a global standard that could serve as a mechanism to help align client objectives with product intent.

In 2019, CFA Institute began exploring the need for a standard that would address potential market integrity issues arising from the challenges in describing and understanding investment products with ESG-related features. CFA Institute solicited input from a geographically diverse group of industry experts, including asset managers, research analysts, consultants, asset owners, service providers, data providers, and nonprofit industry organizations. The results indicated a widespread opinion that the need exists for such a standard and that CFA Institute is the right

[4] Please see the "Terminology" section for definitions related to *ESG matters*, *ESG-related needs*, and *ESG-related features* as used in this Consultation Paper.

organization to address that need given its experience and recognition in the investment industry as a global standard setter.

In January 2020, CFA Institute formed an ESG Working Group to help develop proposals for the core concepts of a voluntary global standard, the ESG Disclosure Standards for Investment Products[5] (the "Standard"). The ESG Working Group[6] consists of 15 volunteers who have wide-ranging industry experience and deep expertise with investment products that have ESG-related features. The proposed core concepts of the Standard are set forth in this Consultation Paper.[7] 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.

Importantly, 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.

Question 1: Do you agree that a standard is needed to help investors better understand and compare investment products with ESG-related features?

Terminology

For the purpose of this Consultation Paper, the following terminology applies.

ASSET MANAGER	An entity that manages an investment product.
ESG MATTERS	Affairs, situations, or topics related to the environment, society, or governance (ESG).
ESG-RELATED FACTOR	A circumstance, fact, estimate, analysis, or influence, related to one or more ESG matters, that contributes to a decision or outcome.
ESG-RELATED FEATURE	A component or capability, intentionally incorporated into the design of an investment product to provide a benefit for the investor, that relies on ESG-related factors or addresses investors' ESG-related needs. An investment product can have more than one ESG-related feature.
ESG-RELATED NEED	A benefit related to ESG matters that an investor must obtain (needs) or would like to obtain (wants).

[5] The Standard's use of the acronym "ESG" refers to the terms environmental, social, or governance or any combination thereof.
[6] The ESG Working Group members are listed in Appendix A.
[7] This paper represents the overall views of CFA Institute and the ESG Working Group. Although it represents such a consensus, it may not necessarily, with respect to all details, represent the individual views of Working Group members or their employers.

INVESTMENT PRODUCT	Products offered by an asset manager to an investor, including (i) pooled funds, such as mutual funds, Undertaking for Collective Investment in Transferable Securities (UCITS) funds, exchange-traded funds (ETFs), and limited partnerships and (ii) strategies for which one or more segregated accounts are managed or may be managed.
INVESTOR	An individual or institution that has purchased an investment product or is considering the purchase of an investment product.

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

Purpose and Scope

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 Standard will establish fundamental requirements and disclosure requirements for investment products with ESG-related features, procedures for independent examination of disclosures, and a classification of ESG-related features by ESG-related needs. The fundamental requirements will address applicability of the Standard, recordkeeping, and distribution of ESG-related marketing materials. The disclosure requirements will provide investors with a way to more clearly understand and compare investment products based on a consistent set of information. The independent examination will provide a level of assurance that an investment product's disclosures meet the requirements and fairly describe the investment product. The classification of ESG-related features will provide investors with a way to more easily choose an investment product that aligns with their ESG-related needs.

The purpose and scope of the Standard exclude the following:

- The Standard will not define best practice for any particular strategy or approach.
- The Standard will not prescribe criteria for the design or implementation of investment products with ESG-related features. That is, the Standard will not provide a label or rating for investment products.
- The Standard will not apply to the issuers of securities or the information they provide to investors. In other words, the Standard is not attempting to define requirements for corporate issuer ESG disclosures.

Table 1 shows how the Standard will fit within the landscape of existing and developing ESG-related regulations, standards, labels, and initiatives. The table is not meant to be exhaustive—the industry is changing rapidly, and many other regulations, standards, labels, and initiatives exist or are in development.

Table 1: Examples of ESG-Related Regulations, Standards, Labels, and Initiatives by Type and Scope

Type and Scope	Examples
Specifications for investment product disclosures	• CFA Institute ESG Disclosure Standards for Investment Products • Regulation EU 2019/2088 Sustainable Finance Disclosure Regulation (SFDR) • Eurosif European SRI Transparency Code
Specifications for measurement or reporting	• Principles for Responsible Investment (PRI) Reporting Framework • Impact Management Project
Specifications for investment products	• Febelfin Quality Assurance Standard and Towards Sustainability label • SRI Label (Label ISR; French Ministry for the Economy and Finance) • Luxembourg Finance Labelling Agency (LuxFLAG) labels • EU Ecolabel (under development)
Specifications for investment approaches	• British Standards Institution (BSI) PAS 7341: Responsible and Sustainable Investment Management • International Finance Corporation (IFC) Operating Principles for Impact Management
Definitions of investment approaches	• The Investment Association (IA) Responsible Investment Framework • Global Sustainable Investment Alliance (GSIA) definitions • Institute of International Finance (IIF) Sustainable Finance Working Group Report: "The Case for Simplifying Sustainable Investment Terminology" • Investment Company Institute (ICI) report: "Funds' Use of ESG Integration and Sustainable Investing Strategies: An Introduction"
Codes and Principles (of investing)	• The UK Stewardship Code 2020 • Principles for Responsible Investment (PRI)
Specifications for benchmarks	• Regulation EU 2019/2089 Climate Transition Benchmarks, EU Paris-aligned Benchmarks, and sustainability-related disclosures for benchmarks
Specifications for issuer disclosures	• Sustainability Accounting Standards Board (SASB) Standards • Global Reporting Initiative (GRI) Standards • Task Force on Climate-Related Financial Disclosures (TCFD) recommendations • Directive 2014/95/EU Non-Financial Reporting Directive (NFRD)
Specifications for bonds	• Climate Bonds Initiative (CBI) Climate Bonds Standard and Certification Scheme • EU Green Bond Standard
Classification of economic activities	• EU Taxonomy

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?

Focused on Investment Product Disclosures

The Standard will focus on disclosures for investment products with ESG-related features. If multiple investment products have identical ESG-related features, then it is possible that a single set of disclosures could meet the disclosure requirements for those multiple investment products. The Standard will not extend to an asset manager's organization. In other words, the Standard will consider only the asset manager's investment products.

The Standard's disclosure-based approach, designed to promote transparency and comparability, will aim to describe individual investment products as they are. This approach differs from a prescriptive-based approach, which describes features an investment product must have or how features should function or perform in order to achieve a minimum level of benefits or performance. The Standard's disclosure requirements will seek to describe investment products with ESG-related features in a complete and clear way, so that investors can determine how well such investment products meet their ESG-related needs.

A number of prescriptive ESG-related standards exist to serve various regional market segments.[8] Compared with a prescriptive approach, a disclosure-based approach offers several benefits for asset managers and investors. First, it provides a common way to describe investment products that should not inherently conflict with regional regulations or prescriptive standards. Second, it provides asset managers with greater ability to port their investment products to other markets. Third, it enables investors to better understand and compare investment products across markets. Finally, it provides flexibility to reflect a diversity of investment approaches and adapt to both changes in investor needs and investment product innovations.

A potential drawback of a disclosure-based approach versus a prescriptive-based approach, depending on one's perspective, is that a disclosure-based approach puts all the responsibility on investors and their advisors or consultants to determine if an investment product meets their needs. An additional drawback is that it does not provide assurance that an investment product will provide a minimum level of benefits or performance. A final challenge with a disclosure-based approach is that not all investors will read the disclosures.

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

[8] For examples of prescriptive standards, see "Specifications for investment products" in Table 1.

Focused on ESG-Related Features

The Standard will focus on investment product features because features are a key way that investors distinguish among investment products. In a sense, an investment product is simply a bundle of features. Investment products have many features including, but not limited to, objectives (outcomes that the investment product intends to attain or accomplish), constraints (limitations or restrictions), policies (decisions to follow certain principles or courses of action), and methods (techniques and procedures). Excluding bespoke investment products, it can generally be said that asset managers choose the features they put into their investment products and that investors choose investment products based on the features those investment products contain.

The Standard will apply only to those investment products offered by an asset manager that have one or more of the features defined in the Standard as an ESG-related feature; the Standard is not relevant for investment products that have no ESG-related features. The Standard will require asset managers to disclose specific information about investment products with ESG-related features. Asset managers will be able to choose the investment products to which they apply the Standard, but when an asset manager has chosen to apply the Standard to a specific investment product, the asset manager must comply with all of the Standard's requirements.

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?

Design Principles

Design principles are guidelines that will inform the development of the Standard. They help establish criteria to evaluate specific proposals or solutions. The design principles for the Standard will govern its definitions, disclosure requirements, process for independent examination, and classification.

Definitions of ESG-Related Terms

There are several reasons why it has been difficult to establish globally accepted definitions for ESG-related terms. First, ESG-related terms are typically used by investors, industry, and the media without a great deal of precision. Second, identical words have different meanings to different people and in different regions. Third, there is no single authoritative body that can define terms for the global investment management industry. Finally, even if global definitions were to evolve, it is unlikely that investors, the industry, and the media would promptly adopt the new language, change product names, and rewrite marketing materials. Despite these challenges, several organizations have produced useful glossaries.[9] The various efforts are not yet fully aligned, and this Consultation Paper endeavors to support terms that have a growing consensus and to make suggestions for terms that need additional clarification.

To balance the need for clarity with the need for industry alignment, we propose the following design principles for definitions of ESG-related terms:

- *Simple.* Choose simple words with clear meanings, where possible, to make the Standard more easily understood by a wide audience.
- *Precise.* Use words as they are commonly defined in dictionaries.
- *Unambiguous.* Avoid the use of terms that may have multiple meanings or no clearly defined meaning.
- *Aligned.* Link terms used in the Standard with terms used by other organizations.
- *Familiar.* Where possible, use terms that have broad or growing industry support.

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

Disclosure Requirements

Many of the Standard's requirements will be related to disclosures. Disclosure requirements are a key way to provide transparency and comparability for investors. A disclosure requirement is simply a means of ensuring that asset managers communicate certain information to investors. There are different ways that disclosures might be required, both in terms of scope and method. Therefore, it is necessary to establish principles to ensure the disclosure requirements meet the purpose of the Standard. We propose the following design principles:

- *Disclosure requirements should focus on relevant, useful information.* Disclosures must provide information that will help investors better understand investment products, make comparisons, and choose among alternatives.
- *Disclosure requirements should focus primarily on ESG-related features.* Because the goal of the Standard is to enable greater transparency and comparability of investment products with ESG-related features, the Standard's disclosure requirements should focus on these features. Focusing the disclosure requirements on ESG-related features also avoids adding unnecessarily to an asset manager's disclosure burden.
- *Disclosure requirements should allow asset managers the flexibility to make the required disclosure in the clearest possible manner given the nature of the product.* Disclosure requirements can easily be reformulated as questions. There are two types of questions—open-ended

[9] In developing this proposal, CFA Institute reviewed proposals by other organizations and held discussions with a number of them. This Consultation Paper represents a first step in the development of the Standard, and we welcome feedback on how to harmonize this Standard with other organizations' approaches.

and closed-ended. Open-ended questions ask who, what, why, where, when, or how. Closed-ended questions require answers in a specific form—either yes/no or selected from a predefined list. The open-ended disclosure requirement format provides the flexibility needed for the Standard to be relevant on a global scale and to pertain to all types of investment products with ESG-related features. The open-ended nature of the disclosure requirements, however, must be balanced to a certain degree with a standardization of responses for the sake of comparison by investors. The forthcoming Exposure Draft will include examples of open-ended and standardized disclosures.

- *The disclosure requirements should aim to elicit a moderate level of detail.* An investment product's disclosures should accurately and adequately represent the policies and procedures that govern the design and implementation of the investment product. The Standard's disclosure requirements can be thought of as a step between a database search and a due diligence conversation. The disclosures will provide more detail than can be standardized and presented in a database but less detail than the information one can obtain through a full due diligence process.
- *The disclosure requirements should prioritize content over format.* The disclosure requirements will focus on what information is disclosed rather than how it is disclosed. The Standard will provide a certain degree of flexibility in the format for information presentation. Providing latitude in the format is intended to reduce an asset manager's disclosure burden and allow for harmonization with disclosures required by regulatory bodies and other standards. The Exposure Draft will offer examples of presentation formats.
- *Disclosure requirements should be categorized as "general" or "feature-specific".* The Standard will have both general and feature-specific disclosure requirements. General disclosure requirements will apply to all investment products that seek to comply with the Standard. Feature-specific disclosure requirements will apply only to investment products that have a specific ESG-related feature.
- *The Standard should include disclosure recommendations in addition to requirements.* We anticipate that in addition to the Standard's required disclosures, the Standard will have recommended disclosures as well. Required disclosures represent the minimum information that must be disclosed in order to comply with the Standard. Recommended disclosures provide additional information that investors may find helpful in their decision making. Recommended disclosures are encouraged but not mandatory.

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

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?

Independent Examination

Disclosures are intended to provide transparency and comparability but, as with any type of disclosure, investors are exposed to the risk of errors, omissions, and misrepresentations. We propose that the Standard provide for an independent, third-party examination of the investment products to which the Standard is applied. An independent examination will provide investors with some level of assurance that "what they see is what they'll get"—in other words, that the investment product has the ESG-related features that the asset manager claims it has. Independent examination would make no assessment whatsoever about the adequacy of a product's ESG-related features. Investment products may have minimal or relatively simple ESG-related features, but this is not an issue as long as the disclosures accurately describe them.

There are two options to consider for independent examination. An independent third party could evaluate an investment product's disclosures against the design of the investment product only or against the design and implementation of the investment product. Evaluating the disclosures against the investment product design would require comparing the disclosures with policies, procedures, and any other documents governing the investment product's design. Evaluating the disclosures against the implementation of the investment product would require comparing the disclosures with the asset manager's actions over some period of time.

For independent examination, we propose the following design principle:

> *Investment product basis.* We envision that the independent examination would be performed on individual investment products rather than a single examination of the entire asset management firm. The benefit of independent examination for investors is that they have some level of assurance that the disclosures offer a fair representation of the investment product. Therefore, it is critical for investors to know whether the disclosures of the particular investment products they are considering have undergone an independent examination.

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

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 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?

Classification

There are many ways that investment products are, or could be, classified. There is no best way. The primary purpose for classification in this Standard is to help investors identify and compare ESG-related features that meet their particular ESG-related needs. In other words, the Standard intends to classify ESG-related features according to ESG-related needs. To do this, we must not only identify the universe of ESG-related features but also identify the universe of ESG-related needs. The relationships between ESG-related needs and ESG-related features can then be efficiently shown in a needs–features matrix.

For classification, the following design principle is proposed:

> *Classify ESG-related features according to the ESG-related needs they address.* To understand and compare investment products, investors must understand how the benefits of particular ESG-related features typically address ESG-related needs.

Design Proposals

This Consultation Paper sets forth several proposals for the design of the key elements of the Standard. These proposals have been developed in accordance with the design principles in the preceding section and will serve as a foundation for developing an Exposure Draft of the Standard. The proposals include (i) general disclosure requirements, (ii) ESG-related feature definitions and feature-specific disclosure requirements, and (iii) a classification matrix that maps ESG-related needs to ESG-related features.

Proposal for General Disclosure Requirements

The Standard will have requirements for general disclosures and feature-specific disclosures. The general disclosure requirements will apply to all investment products with one or more ESG-related features that use the Standard. In contrast, feature-specific disclosure requirements will apply only to investment products that claim to have a particular feature. The Standard will not apply to investment products without ESG-related features. The following list proposes the general disclosure requirements:

General Disclosure Requirements

- Description of the investment product's investment mandate, objective, or strategy
- Time horizon of the ESG investment analysis
- The investment universe (prior to any exclusions)
- The investment product's benchmark(s)
- Description of any monitoring and review procedures to evaluate the investment product's alignment with its stated investment objectives

- The ESG-related or sustainable labels and standards with which the investment product claims compliance
- Whether the investment product has been independently examined
- Material changes to the investment product's ESG-related features and the effective date of the changes including, specifically, if the investment product has transitioned from an investment product without ESG-related features to an investment product with ESG-related features

Question 13: Do you agree with the scope of the general disclosure requirements? Are there topics that should be added, deleted, or modified?

Question 14: Should the disclosure requirements address an investment product's intention to align with policy goals, such as the UN Sustainable Development Goals[10] (SDGs), and if so, should these requirements be part of general disclosure requirements or feature-specific disclosure requirements?

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?

Proposal for ESG-Related Features and Feature-Specific Disclosure Requirements

The task of defining ESG-related features involves deriving commonalities from the many variations of investment products with ESG-related features. To find commonality, one must first identify the features that relate specifically to ESG matters and then clearly distinguish among those features. Such an exercise is not an exact science; some will see more distinctions than others.

Through a review of works published by other organizations and of investment products in the marketplace, we have identified six ESG-related features:

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

[10] Information on the UN Sustainable Development Goals can be found here.

These six ESG-related features are not mutually exclusive; an investment product may have one or more ESG-related features—or none at all. It may be helpful to recall that (i) an ESG-related feature is something an investment product either has (a component) or does (a capability) and (ii) features of investment products include, but are not limited to, objectives (outcomes that the investment product intends to attain or accomplish), constraints (limitations or restrictions), policies (decisions to follow certain principles or courses of action), and methods (techniques and procedures).

Exhibit 1 defines the six ESG-related features. Each feature's definition consists of the following six components:

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

Exhibit 1 also includes types of issues that could be addressed by disclosure requirements for each feature.

Exhibit 1: ESG-Related Features

Feature Name and Code	**ESG Integration (A)**
Function	Explicitly considers ESG-related factors that are material to the risk and return of the investment, alongside traditional financial factors, when making investment decisions. *Integration* is the combination of parts to create a unified whole. *Considers* means to take into account when making a decision. An *ESG-related factor* is a circumstance, fact, estimate, analysis, or influence, related to one or more ESG matters, that contributes to a decision or outcome. ESG-related factors that are *material to the risk and return* of an investment are ESG-related factors that a reasonable investor would consider to be important to an investment decision. *Investment decisions* means those decisions associated with asset allocation, security selection, and portfolio construction. Decisions related to proxy voting, engagement, and stewardship are addressed under a separate feature.
Benefits	Investment products in which material ESG-related factors are considered alongside traditional financial factors in investment analysis aim to increase return or decrease risk for the investor by incorporating a broader set of factors in investment decision making. This feature does not imply that the issuers or companies selected for investment are necessarily good stewards of the ESG resources required to operate their enterprises or that they actively mitigate the potential consequences of their activities on the environment and society. Issuers and companies that are not good stewards or do not mitigate negative consequences of their activities may still be attractive investments based on valuation.

Feature Name and Code	ESG Integration (A)
Alignments	The definition of this feature is intended to align with the PRI[11] definition of "integration of ESG issues," the BSI[12] definition of "integration of ESG issues," the ICI[13] definition of "ESG integration," and the IA[14] fund-level component definition of "ESG integration." The definition of this feature is also intended to align with the GSIA[15] definition of "ESG integration" and the SFAMA/SSF[16] definition of "ESG integration approach," although there are slight differences between the definitions.[17]
Notes	Investment products with this feature take into account material ESG-related factors alongside traditional financial factors.[18] The quantity and type of investment decisions made in particular investment products vary greatly, and therefore this feature can be expressed quite differently among investment products.
Examples	In equity and credit analysis and valuation, ESG-related factors can be considered in many ways, including, but not limited to: forecasted financials, valuation-model variables, valuation multiples, internal credit assessments, relative value analysis, spread analysis, duration analysis, security sensitivity and scenario analysis, analysis of company strategy, analysis of the quality of management, relative ranking, and qualitative risk assessment. In portfolio construction, ESG-related factors can be considered in many ways, including, but not limited to: macroeconomic, industry, sector, and country-level analysis; comparison of ESG profile versus benchmark; and scenario analysis. In risk management, ESG-related factors can be considered in many ways, including but not limited to: scenario analysis and ESG profile benchmarking

[11] Principles for Responsible Investment. 2017. "PRI Reporting Framework Main definitions 2018" (https://www.unpri.org/download?ac=1453).

[12] British Standards Institute. 2020. "PAS 7340: 2020" (https://shop.bsigroup.com/ProductDetail?pid=000000000030387840&_ga=2.110929477.1326363852.1593605858-1109140655.1592226246).

[13] Investment Company Institute. 2020. "Funds' Use of ESG Integration and Sustainable Investing Strategies: An Introduction" (https://www.ici.org/pdf/20_ppr_esg_integration.pdf).

[14] The Investment Association. 2019. "IA Responsible Investing Framework Final Report" (https://www.theia.org/sites/default/files/2019-11/20191118-iaresponsibleinvestmentframework.pdf).

[15] Global Sustainable Investment Alliance. 2018. "2018 Global Sustainable Investment Review" (http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf).

[16] Swiss Funds & Asset Management Association (SFAMA) and Swiss Sustainable Finance (SSF). 2020. "Sustainable Asset Management: Key Messages and Recommendations of SFAMA and SSF" (https://www.sustainablefinance.ch/upload/cms/user/EN_2020_06_16_SFAMA_SSF_key_messages_and_recommendations_final.pdf).

[17] The GSIA definition does not explicitly state that the factors be included in decisions—only analysis. The SFAMA/SSF definition seems limited to decisions associated with security selection ("strategic and tactical asset allocation" is under its own heading), whereas the definition here includes asset allocation and portfolio construction decisions.

[18] CFA Institute Standards of Professional Conduct require CFA charterholders, CFA Institute members, CFA program candidates, and CIPM program candidates to conduct appropriate research and investigation of all material information relevant to their investment analyses and portfolio management decisions, recommendations, or actions. CFA Institute believes this requirement includes the consideration of relevant material ESG information and considerations. For the full CFA Institute statement on environmental, social, and governance integration, please see https://www.cfainstitute.org/-/media/documents/article/position-paper/cfa-institute-position-statement-esg.ashx.

Feature Name and Code	**ESG Integration (A)**
Types of issues to be addressed by disclosure requirements	• The specific methods by which material ESG-related factors are considered in asset allocation, security selection, portfolio construction, and risk management (see list in the Examples section) • How material ESG-related factors are distinguished from non-material ESG-related factors • The sources of ESG data, estimates, and analysis used in decision making • A description of the qualitative or quantitative attribution performance analysis, if any, for evaluating material ESG-related factors

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 17: 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.

Question 18: Is Feature (A) clearly defined? If not, please explain how the definition could be made clearer or more precise.

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?

Feature Name and Code	**ESG-Related Exclusions (B)**
Function	Excludes securities, issuers, or companies from the investment product based on certain ESG-related activities, business practices, or business segments. An *exclusion* is a limitation or restriction. For the purposes of this Standard, an *exclusion* is defined as a limitation on the investments that can be held by the investment product. *ESG-related* exclusions are exclusions related to ESG matters.
Benefits	Investment products that have ESG-related exclusions can help align investors' investments with their ethical principles, values, religious beliefs, and/or societal norms. When laws and regulation require such exclusions, this feature provides for compliance with such requirements.

Feature Name and Code	ESG-Related Exclusions (B)
Alignments	The definition of this feature is intended to align with the PRI definitions of "negative/exclusionary screening" and "norms-based screening," the GSIA definitions of "negative/exclusionary screening" and "norms-based screening," the IIF[19] definition of "exclusion investments," the SFAMA/SSF definition of "exclusions (negative screening)," the ICI definition of "ESG exclusionary investing," the BSI definitions of "negative/exclusionary screening" and "norms-based screening," and the IA fund-level component definition of "exclusions."
Notes	ESG-related exclusions are typically related to positions, beliefs, or opinions about ESG matters. Values- and faith-based exclusions are based on certain principles or systems of belief. They are generally implemented based on the nature of a company's core investment products and services or a percentage of company revenue generated from a business activity. Norms-based exclusions are based on generally accepted societal standards. Norms-based exclusions focus on a company's behavior related to such standards. The criteria used to exclude securities, issuers, or companies from the investment product need not be explicitly stated as an exclusion. For example, an investment product described as having "norms-based exclusions" may be equivalent to an investment product described as being "compliant with the UN Global Compact." Another example is Sharia-compliant investment products, which exclude certain types of businesses and practices. ESG-related exclusions may be documented in client-specific investment policy statements, product mandates, the asset manager's policies, or a product's offering documents. ESG-related exclusions can be applied to security selection, thereby reducing the size of the otherwise investable universe, as well as during portfolio construction.
Examples	Some examples of ESG-related exclusions are fossil fuels, alcohol, gambling, tobacco, child labor, and controversial weapons.
Types of issues to be addressed by disclosure requirements	• A description of each ESG-related exclusion criteria • If the ESG-related exclusion criteria can be changed, a description of the process for doing so • A description of the asset manager's investment universe prior to the application of exclusions (e.g., large-capitalization domestic public equities), if applicable • A description of the asset manager's assessment of the impact of the ESG-related exclusion criteria on the size of the investment universe • Differences, if any, between the investment product's exclusions and the benchmark's exclusions

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.

[19] Institute of International Finance. 2019. "The Case for Simplifying Sustainable Investment Terminology" (https://www.iif.com/Portals/0/Files/content/Regulatory/IIF%20SFWG%20-%20Growing%20Sustainable%20Finance.pdf).

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 22: Is Feature (B) clearly defined? If not, please suggest how the definition could be made clearer or more precise.

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?

Feature Name and Code	**Best-in-Class (C)**
Function	Aims to invest in companies and issuers that perform better than peers on one or more performance metrics related to ESG matters. *Performance* is an action, task, or operation seen in terms of how successfully it was completed. A *metric* is a system or standard of measurement. Therefore, a *performance metric related to ESG matters* is any performance standard or measurement related to ESG matters chosen by the asset manager that influences the selection of investments and construction of the portfolio. The ESG performance of a company or issuer may be related to but is distinct from its financial performance.
Benefits	Investment products that aim to invest in companies and issuers that perform better than peers based on one or more ESG metrics allow investors to invest according to their preferences for companies and issuers that behave in certain ways when dealing with ESG matters. Investors should not assume that an investment product with this feature will drive a change in real-world outcomes, because there is no intention or action on the part of the asset manager to provide a real-world solution to an ESG problem. This feature does allow investors, however, to signal to issuers and companies that they, as investors, care about the effects issuers and companies have on the environment and society.
Alignments	The definition of this feature is intended to align with the PRI definition of "positive/best-in-class screening," the GSIA definition of "positive/best-in-class screening," the IA fund-level component definition of "sustainability focus," and the SFAMA/SSF definition of "best-in-class approach."
Notes	Typically, this feature applies a relative threshold to an ESG performance metric such that the relatively worst performers—the bottom quartile, for example—are not selected. Alternatively, this feature may overweight holdings with relatively good ESG performance and underweight holdings with relatively poor ESG performance. Some industry participants refer to this approach as ESG tilt or ESG overlay.

Feature Name and Code	Best-in-Class (C)
	Feature (C), Best-in-Class, differs from Feature (A), ESG Integration, in that performance metrics related to ESG matters are an explicit focus in asset allocation, security selection, and/or portfolio construction decisions for investment products with Feature (C). In other words, investment products that have Feature (C) have one or more explicit ESG-related objectives, whereas those with only Feature (A) do not. Feature (C) also allows for the consideration of ESG factors that may be neutral or non-material to the risk and return of at least some holdings. Feature (C) differs from Feature (D), ESG-Related Thematic Focus, because although the preference for better ESG performance may result in a "theme" in the generic sense of the word, the preference in Feature (C) is not based on a long-term structural trend that is expected to drive the risk and return of the product. Feature (C) differs from Feature (E), Impact Objective, because investment products with Feature (C) do not have an objective to generate a specific, measurable change in outcomes related to ESG matters. Some forms of Feature (C) have characteristics in common with Feature (B), ESG-Related Exclusions. Like Feature (B), forms of Feature (C) that have a relative performance threshold also implement the threshold via screening. And like Feature (B), the threshold eliminates some portion of the otherwise investable universe. Additionally, the two features overlap to some degree with respect to the ESG-related needs they address. In other ways, however, Feature (C) differs from Feature (B). First, ESG-related exclusions are constructed using thresholds of exposure to certain products, practices, or activities. The principles, values, and ethical frameworks that typically underpin ESG-related exclusions usually characterize something as "acceptable" or "unacceptable," and thus the investment decisions regarding certain products, practices, or activities tend to be binary as well—a potential investment is either eligible or not eligible. Exclusions constructed in this way may result in the exclusion of large segments of the universe and have a noticeable effect on risk and return. In contrast, Feature (C) selects or weights investments based on relative ESG performance. This approach intends to create a market where companies and issuers compete for capital on the basis of not only financial performance but other performance metrics as well. Investment products with Feature (C) and only Feature (C) would not exclude outright any particular segment of the economy. For the purpose of this Consultation Paper, an investment product that excludes investments based solely on absolute thresholds should be considered as having Feature (B) rather than Feature (C). Exclusions based on relative ESG performance thresholds should be considered as having Feature (C). In addition to the similarities with other approaches, the terminology currently used with this feature may lead to confusion in the marketplace. Describing a product as "best-in-class" may lead to confusion if the product does not clearly state which "class" is being referenced or what type of criteria is used to constitute "best." The term "positive screening" may lead to confusion because the term could be interpreted as the exact same thing as "negative screening," with the only difference being that the criteria are stated in inclusionary terms instead of exclusionary terms. To better differentiate this feature from other features and to reduce confusion in the marketplace, new terminology may be needed. One alternative name for this feature is "Positive ESG Performance Profile" or some variant thereof. If this were the feature name, *ESG Performance* would refer to the actions taken by companies and issuers with respect to certain ESG matters. *Positive* would indicate that the ESG-related actions taken are favorable or improving relative to peers. *Profile* would indicate a certain pattern of ESG performance according to various metrics at the portfolio level.

Feature Name and Code	**Best-in-Class (C)**
Examples	Examples of ESG performance metrics include greenhouse gas emissions, decarbonization trajectory, diversity, animal rights and welfare, and board independence. An investment product with this feature may focus on one ESG performance metric, such as gender diversity, or a combination of multiple ESG performance metrics, such as water conservation, renewable energy, and pollution control. ESG scores and ratings based on ESG performance metrics can also be applied to all of an investment product's holdings. Investment products that take this approach are often characterized as ESG tilt or ESG overlay.
Types of issues to be addressed by disclosure requirements	• Description of the ESG performance metrics on which peer investments will be compared (see Examples section) and whether the performance metrics are designed to evaluate specific ESG matters or to evaluate aggregate performance across a broad range of ESG matters • Where and how ESG performance metrics enter into asset allocation, security selection, and portfolio construction • If applicable, a description of the relative performance threshold and, if the threshold can be changed, a description of the process for doing so • If applicable, a description of how ESG scores or ratings are used to determine the relative weights of the holdings • The sources of ESG data, estimates, and analysis used to evaluate ESG performance • Methods used to monitor holdings' ongoing performance against the ESG metrics • Benchmarks for ESG performance metrics (e.g., an EU climate transition benchmark)

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 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 26: Is Feature (C) clearly defined? If not, please explain how the definition could be made clearer or more precise.

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?

Feature Name and Code	ESG-Related Thematic Focus (D)
Function	Aims to invest in sectors, industries, or companies that are expected to benefit from long-term macro or structural ESG-related trends. A *thematic focus* is a long-term macro or structural trend to which a product intentionally seeks exposure via sectors, industries, or companies for the purpose of achieving a financial return. An *ESG-related* thematic focus is one that pertains to environmental, social, or governance matters.
Benefits	Investment products with an ESG-related thematic focus provide investors with an opportunity to capitalize on macro trends or structural shifts to gain exposure to a risk-and-return profile that differs from broad market benchmarks. These investment products also offer investors the opportunity to invest in companies that may benefit in the long term from striving to address ESG matters. Because there is no intent to influence the direction of these trends, investors should not assume that a product with an ESG-related thematic focus will drive a specific, intentional change in real-world outcomes other than those outcomes generally associated with the provision of capital—for example, the expansion of the economic activities conducted by the issuer or company.
Alignments	The definition of this feature is intended to align with the PRI definition of "sustainability themed investment," the GSIA definition of "sustainability themed investments," and the SFAMA/SSF definition of "sustainable thematic investments."
Notes	"Thematic investing" is a conventional strategy in the investment industry. The term refers to an alpha-generating strategy that identifies long-term macro or structural trends and then invests in securities with positive exposure to those trends. Typically, the core business activity of the companies in which the product invests is positively correlated with the trend. The companies' overall ESG performance is not necessarily taken into account. Therefore, some companies could have weak performance on one or more ESG metrics but nonetheless be positioned to financially benefit from addressing an ESG matter. Investment products that have a single investment theme usually have a relatively concentrated risk exposure to economic activities. Investment products with multiple themes generally have less-concentrated sets of risk exposures.
Examples	Areas of ESG-related thematic focus include, but are not limited to, alternative energy, climate adaptation, water management, pollution prevention and control, transition to a circular economy, resource efficiency, and healthcare.
Types of issues to be addressed by disclosure requirements	• Description of the ESG-related thematic focus • Where and how the thematic focus is used in asset allocation, security selection, and portfolio construction

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 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 30: Is Feature (D) clearly defined? If not, please explain how the definition could be made clearer or more precise.

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?

Feature Name and Code	Impact Objective (E)
Function	Seeks to generate a positive, measurable social or environmental impact alongside a financial return. An *objective* is something that one's efforts or actions are intended to attain or accomplish. An *impact* is a change in outcomes. An *environmental or social impact objective* is the intention to attain a change in outcomes with respect to one or more environmental or social matters. *Measurable* means the impact objective is well defined and progress with respect to the stated impact objective can be measured.
Benefits	Investment products that have one or more positive, measurable environmental or social impact objectives allow investors to make an intentional, positive contribution to an environmental or social matter while also earning a financial return.
Alignments	The definition of this feature is intended to align with the GIIN[20] definition of "impact investing," the GSIA definition of "impact/community investing," the IIF definition of "impactful investments," the SFAMA/SSF definition of "impact investing," the IA fund-level component definition of "impact investment," the BSI definition of "impact investing," the ICI definition of "impact investing," and the IFC[21] definition of "impact investments."
Notes	The term "impact investing" was not used here because it refers to an investment strategy, whereas this paper is seeking to identify only investment product features. It is believed that the impact "objective" is the identifiable feature of an impact investing strategy that expresses an investment product's intent to contribute to a positive, measurable change in social or environmental outcomes. Objectives are not the only important component of impact investing strategies; other aspects are equally important. As stated earlier, the Standard does not intend to put forth best practices for how investment products should be designed and implemented.[22]
Examples	An example of an impact objective is one that aims to increase the availability of capital to underserved communities through direct loans to small businesses.

[20] Global Impact Investing Network (GIIN). 2020. "What is impact investing?" (https://thegiin.org/impact-investing/).
[21] International Finance Corporation. 2020. https://www.impactprinciples.org/.
[22] For a best-practice framework for impact investing, see the IFC's "Operating Principles for Impact Management."

Feature Name and Code	Impact Objective (E)
Types of issues to be addressed by disclosure requirements	• Description of impact objectives, including the objectives' intentionality, measurability, and additionality • A priority ranking of all objectives, inclusive of both impact objectives and investment objectives • Methods used to assess, measure, and monitor performance against the stated impact objectives • Where and how the impact objectives are used in asset allocation, security selection, and portfolio construction • Methods by which the product intends to achieve the stated impact objectives

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 33: Is Feature (E) clearly defined? If not, please explain how the definition could be made clearer or more precise.

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?

Feature Name and Code	Proxy Voting, Engagement, and Stewardship (F)
Function	Uses rights and position of ownership to influence issuers' or companies' activities or behaviors. *Rights and position of ownership* are legal entitlements or situational circumstances giving one the power to act. *Influence* means to have an effect. *Activities or behaviors* are any decisions or actions undertaken by the issuer or company. *Proxy voting* refers to voting on management and/or shareholder resolutions. *Engagement* refers to one or more interactions, such as meetings or written dialogue, between the asset manager of the investment product and the management of the issuer or company. *Stewardship* is the oversight and management of an asset to maintain or enhance its value.
Benefits	Investment products that use rights and position of ownership to attempt to influence issuers' or companies' activities or behaviors related to ESG matters give investors the opportunity to exercise ownership rights and to potentially effect change with respect to ESG matters.
Alignments	The definition of this feature is intended to align with the PRI definition of "active ownership," the GSIA definition of "corporate engagement and stakeholder action," the IA fund-level component definition of "stewardship," the BSI definition of "active ownership," and the SFAMA/SSF definition of "stewardship (active ownership)."
Notes	Ownership rights differ depending on the asset class. An investment product need not have a specific objective to influence only certain ESG matters or to achieve particular outcomes in order to exercise rights and position of ownership. Rights and position of ownership can be exercised at different times and on different issues.

Feature Name and Code	**Proxy Voting, Engagement, and Stewardship (F)**
Examples	ESG-related proxy voting, engagement, and stewardship examples include, but are not limited to, proxy voting, engagement, collaborative engagement, and filing shareholder resolutions.
Types of issues to be addressed by disclosure requirements	• Policies and guidelines for proxy voting, engagement, and stewardship • The extent of reliance on proxy advisors • If applicable, how ESG factors that are material to the risk and return of the investment are considered, alongside traditional financial factors, when making proxy voting, engagement, and stewardship decisions • If applicable, how performance on ESG performance metrics is considered, alongside traditional financial factors, when making proxy voting, engagement, and stewardship decisions • If applicable, how impact objectives are considered, alongside traditional financial factors, when making proxy voting, engagement, and stewardship decisions • Specific goals for proxy voting, engagement, and stewardship, if any

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 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 37: Is Feature (F) clearly defined? If not, please explain how the definition could be made clearer or more precise.

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

Proposal for Classification of ESG-Related Features According to ESG-Related Needs

Many investors’ investment product needs are related to their future financial needs. These needs are generally stated in terms of risk tolerance, return objectives, time horizon, liquidity needs, tax concerns, and legal or regulatory requirements. Because the scope of the Standard is investment products, the Standard assumes that earning a financial return is a core need that exists when choosing any investment product.

Today, an increasing number of investors have ESG-related needs or preferences in addition to financial needs. Investors state these types of needs in a variety of ways. Sometimes investors do not explicitly state these types of needs but still consider them in their investment product selection decisions. In order to meet an investor's ESG-related needs, there must be a relatively efficient way for the investor to communicate them or for the investor's consultant or advisor to assess them.

We have identified five distinct ESG-related investor needs. These needs are not mutually exclusive, and a particular investor may have none, one, several, or all. In Table 2, ESG-related needs are intentionally phrased in "plain language" that can be easily understood by all investors. The hypothetical statements of needs in Table 2 aim to capture the essence of investors' ESG-related needs rather than the exact wording. The Standard intends to capture typical ESG-related needs; it is not possible to capture all ESG-related needs.

Table 2: Typical ESG-Related Needs

ESG-Related Need	Motivation
"I want to know that the ESG factors that are material to the risk and return of my investments are explicitly considered."	The investor's motivation is to benefit from the inclusion of a more comprehensive set of risk and return considerations than has traditionally been considered in investment products used to meet future financial needs.
"I don't want to violate my personal beliefs or the mission, principles, or beliefs of my organization."	The investor's motivation is to remain aligned with ethical principles, values, and/or religious beliefs.
"I want to make investments that I believe have relatively fewer negative effects, and more positive effects, on the people and things I care about and the world in which I live."	The investor's motivation is to influence the second-order consequences and externalities of the economic activities enabled through the investment. That is, the investor wants to direct capital to companies that are good stewards of natural resources and human capital, implement best-practice governance policies, and strive to avoid or limit negative consequences to the environment or society.
"I want to capitalize on investment opportunities related to long-term environmental or social trends."	The investor's motivation is to capture investment returns from sectors, industries, and companies expected to benefit from macro or structural trends related to ESG matters.
"I want to invest in specific solutions that intend to make a measurable contribution to a defined environmental or social need, problem, or goal."	The investor's motivation is to contribute, wholly or partially, to the realization of environmental and social outcomes that may not occur if the investor, and others, do not invest in efforts that intend to achieve those outcomes.

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

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

With the universe of ESG-related features and ESG-related needs established, we can now determine which ESG-related features typically meet which ESG-related needs. Investors, or their advisors and consultants, can then search for, compare, and evaluate investment products with the appropriate features.

Table 3 shows which ESG-related features investors may want to consider when they have a particular set of ESG-related needs. It is always the responsibility of investors to conduct appropriate due diligence to determine if a particular investment product meets their particular needs. Given the aforementioned caveats, it is hypothesized that an ESG-related feature commonly addresses an ESG-related need where a dot (•) appears at the intersection of a row and a column in the following table. Other features–needs relationships are also possible in addition to the ones shown in Table 3.

Table 3: Classification of ESG-Related Features According to ESG-Related Needs

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

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?

Users and Benefits

The Standard is expected to have four primary types of users: asset managers, investors, consultants and advisors, and database providers. Asset managers can use the Standard for clearly communicating ESG-related product features. Investors and consultants/advisors can use the Standard to discuss, assess, and compare investment products with ESG-related features. Database providers can use the Standard to improve investment product search functions. The primary benefits, for all users, will be clarity and efficiency when presenting, identifying, comparing, or discussing investment products with ESG-related features.

Asset Managers

As stated earlier, asset managers and investors alike struggle to understand the inconsistent terminology associated with ESG-related features. This confusion interferes with the investor buying process; investors are less likely to purchase an investment product when its benefits are unclear to them. Asset managers can increase the transparency of their investment products by using the Standard to clearly communicate a product's ESG-related features and benefits. Increasing investors' understanding of investment product benefits will help investors more easily identify and select appropriate investment products.

Asset managers may also benefit from providing a uniform set of disclosures to consultants, advisors, and database providers, thereby reducing their disclosure burden while increasing the likelihood that their investment products are properly identified and differentiated during searches. Asset managers who use the Standard will not have to alter existing investment product names, thus preserving the identity and recognition of their products in the marketplace. In addition, the Standard's ESG-related needs and features are intended to be globally applicable, providing for uniformity in marketing and ease of portability across geographic borders. Moreover, complying with the Standard will not preclude adherence to other standards or labels.

Finally, because compliance with the Standard is voluntary, asset managers who choose to comply with the Standard demonstrate a commitment to best ethical practices.

Investors

The Standard is intended for use by all institutional and individual investors, as well as their consultants and advisors. Institutional investors include, but are not limited to, public and private pension funds and schemes, public entities, endowments, foundations, family offices, provident funds, insurers and reinsurers, and sovereign wealth funds. Individual investors include private wealth clients, high-net-worth clients, and retail investors.

Institutional Investors

The ambiguity and confusion that exist in the current ESG investment landscape can make it difficult—and sometimes impossible—for institutional investors to have constructive conversations about ESG-related needs with various stakeholders, such as trustees, boards, and plan sponsors, as well as their consultants. The Standard would provide institutional investors with a means to identify and articulate their ESG-related needs, in accordance with their investment policy, in a clear and unambiguous way.

Adhering to investment policy constraints is critical for those institutional investors who must avoid violating fiduciary duty or governing regulations. At the same time, many institutional investors find it important to evolve their investment policies to reflect changes in societal or stakeholder preferences or requirements. The Standard could be used to help craft additional language for investment policies to reflect ESG-related needs or to provide consultants with the guidelines needed to select investment products with appropriate ESG-related features.

Some institutional investors will require detailed information about how features are constructed. Disclosures can provide a moderate level of detail to use as a starting point for deeper evaluation of an investment product's ESG-related features or more-thorough investment product comparisons. Institutional investors would also benefit from independent examination and receiving assurance that the disclosures fairly describe the investment product.

Individual Investors

To make informed investment decisions, individual investors must understand what they are investing in. Clearly defined ESG-related features will help individual investors understand the benefits associated with investment products that have these features. Individual investors, particularly those who invest without consulting an advisor, can benefit from using the Standard's matrix to identify and express their ESG-related needs and to translate these needs into appropriate ESG-related features. Independent examination can also be helpful to individual investors, who may lack familiarity with the concepts and details in the disclosures, to provide assurance that an investment product has the features that it claims to have.

Consultants and Advisors

Investors often rely on investment consultants, advisors, and other entities who distribute, but do not manage, investment products. Investors hire these entities to advise on investment policy matters, provide research and investment recommendations, and engage in asset manager and investment product selection. The confusion surrounding ESG terminology, methods, and ESG-related features can lead to unproductive conversations between investors and their consultants or advisors, resulting in client dissatisfaction with the buying process and missed opportunities to meet clients' needs.

The Standard can serve as a useful communication tool to educate clients about ESG-related needs and ESG-related investment product features using a common language. Consultants and advisors can then communicate more readily with clients about their needs and map those needs to investment products with relevant features. Education is key for helping clients incorporate their ESG-related needs into their investment policies and understanding the investment products recommended to them.

The global relevance of the Standard and its application across asset classes allow investors to consider the full set of investment products. By defining ESG-related features in a universal way, the Standard could be used to help identify suitable investment products regardless of country or region of domicile. The Standard's disclosure requirements could also provide a way to readily identify investment products that have certain ESG-related features that conform to other regulations, standards, labels, and certifications.

The uniformity inherent in the Standard's definition of ESG-related features and its disclosure requirements can provide additional benefits to consultants and advisors in the form of enhanced efficiency gained through greater transparency and comparability in investment product searches and due diligence. This improved efficiency can potentially reduce the time spent on these functions while increasing the likelihood that a client is being presented with appropriate investment choices.

Database Providers

A fourth group of users that will likely benefit from the Standard is database providers that aggregate asset manager data for purposes of investment product search and manager due diligence. The utility of databases depends on their ability to provide standardized, searchable information that consultants and advisors can use to identify suitable investment products for their clients. Currently, asset managers use varying terms to label and describe their investment products with ESG-related features, and databases use varying sets of questions to attempt to provide for transparency and differentiation among these investment products.

Standardization of ESG-related features and disclosures will allow database providers to ask for a more consistent set of information to facilitate more-efficient searches and comparisons for consultants and advisors. A consistent set of information would also reduce disclosure burdens for asset managers, thereby increasing the likelihood that asset managers can provide databases with information that is more complete and more useful. Increasing efficiencies for consultants, advisors, and asset managers may increase a database's value to its users.

Question 43: Do you agree with the description of user benefits? Are there any benefits that should be added or deleted?

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?

Appendix A: CFA Institute ESG Working Group Members

CFA Institute would like to thank the members of the ESG Working Group for their invaluable contributions to this Consultation Paper.

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Principles for Responsible Investment
United Kingdom

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Appendix B: Questions for Public Comment

Question 1: Do you agree that a standard is needed to help investors better understand and compare investment products with ESG-related features?

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

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

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

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

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

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 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 13: Do you agree with the scope of the general disclosure requirements? Are there topics that should be added, deleted, or modified?

Question 14: Should the disclosure requirements address an investment product's intention to align with policy goals, such as the UN SDGs, and if so, should these requirements be part of general disclosure requirements or feature-specific disclosure requirements?

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 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 17: 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.

Question 18: Is Feature (A) clearly defined? If not, please explain how the definition could be made clearer or more precise.

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 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 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 22: Is Feature (B) clearly defined? If not, please suggest how the definition could be made clearer or more precise.

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 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 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 26: Is Feature (C) clearly defined? If not, please explain how the definition could be made clearer or more precise.

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 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 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 30: Is Feature (D) clearly defined? If not, please explain how the definition could be made clearer or more precise.

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 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 33: Is Feature (E) clearly defined? If not, please explain how the definition could be made clearer or more precise.

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 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 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 37: Is Feature (F) clearly defined? If not, please explain how the definition could be made clearer or more precise.

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

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

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

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 43: Do you agree with the description of user benefits? Are there any benefits that should be added or deleted?

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?