

MEMO# 33558

May 27, 2021

CFA Institute Publishes Exposure Draft of ESG Disclosure Standards for Investment Products; Member Call Scheduled for June 8 at 11:00 am ET

[33558]

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TO: ESG Advisory Group
ESG Task Force
EU ESG Disclosure Regulation Working Group
ICI Global Regulated Funds Committee
ICI Global Regulated Funds Committee - Asia
SEC Rules Committee SUBJECTS: Disclosure
ESG
International/Global RE: CFA Institute Publishes Exposure Draft of ESG Disclosure Standards for Investment Products; Member Call Scheduled for June 8 at 11:00 am ET

CFA Institute is developing voluntary, global industry standards - *CFA Institute ESG Disclosure Standards for Investment Products* - to establish disclosure requirements for investment products with environmental, social, and governance (ESG)-related features. In August 2020, it released a Consultation Paper on the development of the standards,[\[1\]](#) and on May 19, 2021, issued an Exposure Draft, which incorporates comments received on the Consultation Paper and solicits feedback on the draft provisions of the standards.[\[2\]](#)

Comments on the Exposure Draft are due by July 14, 2021. CFA Institute states that public commentary will help shape the final version of the standards, which is expected to be issued in November 2021.

We are hosting a member call on June 8 at 11:00 am (ET) to discuss the Exposure Draft and gather member feedback for an ICI comment letter.

Members of the ESG Fund Disclosure Working Group and EU ESG Disclosure Working Group will be sent a calendar invitation with the dial-in information for the June 8 call. Any others who would like to participate on the June 8 call should email Monique Curtis at monique.curtis@ici.org and we will send you the dial-in information.

The Exposure Draft is summarized below.

Purpose and Scope

The purpose of the standards is to provide greater transparency and consistency in ESG-related disclosures, resulting in clearer communication regarding the ESG-related features of investment products.[\[3\]](#)

Based on feedback provided on the Consultation Paper, the Exposure Draft reflects the following:

- Disclosure requirements would be at the product level, and not the firm level. CFA Institute explained that firm-level disclosure requirements would be largely duplicative of the Principles for Responsible Investment (PRI) reporting framework in which signatories report on their responsible investment activities annually at the entity level.
- Independent examination of disclosures is not included. Although the Consultation Paper envisioned the standards would include procedures for independent examination of disclosures and a classification of ESG-related features by investor need, neither is included in the Exposure Draft. The Exposure Draft only addresses fundamental requirements and disclosure requirements for investment products with ESG-related features. Procedures for independent examination of disclosures will be addressed by an exposure draft that is expected to be released in July 2021. Classification of ESG-related features may be revisited after the standards are finalized.
- An investment manager would be able to choose the investment products to which it applies the standards. The investment manager would not be required to apply the standards to all of its investment products that have ESG-related features.
- All disclosures required by the standards must be contained within a single document?referred to as a compliant presentation?rather than in multiple documents.
- The standards would take a disclosure-based approach to describe individual investment products as they are, rather than a prescriptive-based approach.
- Disclosure requirements for the ESG-related aspects of an investment product's strategy would be developed before disclosure requirements for periodic reporting of holdings, portfolio-level ESG characteristics, stewardship activities, or outcomes related to environmental or social issues.
- The standards would allow investment managers the flexibility to base the depth and breadth of technical details in their disclosures on the investment product's typical investor.

Relationship to Regulations and Other Codes and Standards

CFA Institute noted that the most frequent concern expressed about the standards pertains to conflicts with or duplication of regulations and other codes and standards. It stated that its standards, which narrowly focus on disclosure of investment product strategies, do not overlap or conflict with the vast majority of these regulations and voluntary codes and standards. It also stated that the standards would not conflict or overlap with naming rules, labeling and certification programs, classification systems, and assessment methodologies because it has determined that the standards:

- Will neither require nor prohibit the use of particular terms in investment product names, descriptions, or presentations;

- Will not require investment products to have specific ESG-related features or require or prohibit specific types of investments; and
- Will not establish methodologies for rating investment products nor for measuring their ESG characteristics or impacts on environmental or social issues.

CFA Institute also described the differences between its standards and the European Union's Sustainable Finance Disclosure Regulation (SFDR) and included a mapping of SFDR requirements to the Exposure Draft provisions.[\[4\]](#)

Exposure Draft Provisions

The Exposure Draft includes the following sections:

- **General Principles for Investment Product Disclosures.** This section states that investment product disclosures should be complete, reliable, consistent, clear and concise, and accessible.
- **Fundamental Requirements and Recommendations.** Fundamental provisions pertain to the manner in which an investment manager prepares and presents compliant presentations.
- **Disclosure Requirements and Recommendations.** Disclosure provisions pertain to the content of compliant presentations. This section addresses the following elements of an investment product's strategy:
 - Objectives
 - Benchmarks
 - Sources and Types of ESG Information
 - ESG Exclusions
 - ESG Information in Financial Analysis and Valuation
 - Portfolio-Level ESG Criteria and Characteristics
 - Process to Achieve Impact Objective
 - Stewardship
- **Glossary.** The glossary includes 28 defined terms.
- **Sample Compliant Presentations.** Two sample presentations are provided: ESG Disclosures for the XYZ Socially Responsible Equity Strategy and ESG Disclosures for the Sustainable Growth and Income Fund.
- **Appendixes.** The Appendixes include a list of the ESG Technical Committee members, mapping of ESG-related features defined in the Consultation Paper to sections of the Exposure Draft, and a list of all questions asked in the Exposure Draft.

Select Questions for Intended Users

The Exposure Draft stated that the standards are expected to have four primary types of users: investment managers, investors, consultants and advisors, and database providers. It includes a set of questions for each group.

Investment Managers

The Exposure Draft noted that the standards seek to benefit investment managers by providing them a means to:

- more clearly communicate the ESG-related features of an investment product to investors,
- save time and effort when responding to questionnaires and due diligence requests,

- demonstrate a voluntary commitment to best practices, and
- adhere to the disclosure-related principles of the CFA Institute Asset Manager Code when offering investment products with ESG-related features, provided the organization claims compliance with the Asset Manager Code.

It asks the following questions of investment managers:

1. Are the draft provisions helpful in establishing or clarifying the type of information that should be included in an investment product's disclosures regarding the ESG-related aspects of the investment product's strategy?
2. To what extent are the draft provisions supportive of and complementary with local laws and regulations and other codes and standards? Would preparing and presenting a compliant presentation in any way hinder your ability to comply with local laws and regulation or with other codes and standards?
3. Do you expect it will be feasible and practical for your organization to provide the information required by the draft disclosure provisions and adhere to the draft fundamental provisions?
4. To what extent would a compliant presentation proactively provide to asset owners, consultants, and advisors the ESG-related information they commonly request in their requests for proposals (RFPs), due diligence questionnaires (DDQs), and other questionnaires?
5. Would it be helpful if the Standards contained a recommended format or template for compliant presentations?

Investors and Asset Owners

The Exposure Draft stated that the standards are intended for use by all institutional and individual investors as well as their consultants and advisors. It stated that the standards seek to benefit investors by providing them with a means to:

- more easily understand investment products with ESG-related features,
- save time and effort when evaluating and comparing investment products with ESG-related features,
- know whether there have been material changes to the ESG-related features of an investment product since its inception, and
- have greater confidence that an investment product's disclosures are a fair representation of the investment product's ESG-related features, particularly if the compliant presentation for the investment product has undergone an independent examination.

It asks the following questions of investors and asset owners:

1. After reviewing the draft provisions and the sample compliant presentations, do you think a compliant presentation would help you understand how and why an investment product uses ESG information or addresses ESG issues?
2. To what extent would a compliant presentation provide the ESG-related information that you typically request in RFPs, DDQs, and other questionnaires? Is there information that you would like to see disclosed in a compliant presentation that is not required by the draft provisions? Is there information required by the draft provisions that is not necessary?
3. Would the provision of compliant presentations by investment managers complement,

- streamline, or otherwise improve any of your existing processes, such as due diligence, certification, or reporting?
4. Would you find it helpful if the Standards contained a recommended format or template for compliant presentations?

Annette Capretta
Associate General Counsel

endnotes

[1] See [Memorandum No. 32738](#) (Sept. 3, 2020) for a summary of the consultation and [Memorandum No. 32847](#) (Oct. 20, 2020) for a summary of ICI's comments on the consultation.

[2] The Exposure Draft is *available at* <https://www.cfainstitute.org/-/media/documents/support/ethics/exposure-draft-cfa-institute-esg-disclosure-standards-for-investment-products.ashx>.

[3] A majority of commenters to the Consultation Paper agreed that a standard is needed to help investors better understand and compare investment products with ESG-related features, and the CFA Institute stated that they viewed the responses as validating the need for the standard. ICI took the position that a standard was not needed. See [Memorandum No. 32847](#) (Oct. 20, 2020) for a summary of ICI's comments on the consultation.

[4] The mapping is *available at* <https://www.cfainstitute.org/-/media/documents/support/ethics/Mapping-of-SFDR-Requirements-to-Exposure-Draft-Provisions.ashx>.