Response Form

for the

Consultation Paper on the development of the
CFA Institute ESG Disclosure Standards for Investment Products

CFA Institute is developing a voluntary, global industry standard, the CFA Institute ESG Disclosure Standards for Investment Products (the "Standard"), to establish disclosure requirements for investment products with ESG-related features. The purpose of the Standard is to provide greater transparency and comparability for investors by enabling asset managers to clearly communicate the ESG-related features of their investment products. The goal for this Consultation Paper is to elicit feedback on the proposed scope, structure, and design principles of the Standard. **All comments must be received by 19 October 2020 in order to be considered.**

Providing Feedback

Public commentary on this Consultation Paper will help shape an Exposure Draft, the initial version of the Standard, which is expected to be issued in May 2021. Comments should be provided in this response form. You may address as few or as many of the Consultation Paper's questions as you wish. Unless otherwise requested, all comments will be posted on the CFA Institute website.

Guidelines for submission

Comments are most useful when they:

- directly address a specific issue or question,
- provide a rationale and support for the opinions expressed, and
- suggest alternative solutions in the event of disagreement.

There is a section for general comments at the end of this response form.

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

Requirements for submission

For comments to be considered, please adhere to the following requirements:

- Insert responses to numbered questions in the designated areas of the response form. Please do not remove tags of the type <QUESTION_XX>. Your response to each question must be framed by the two tags corresponding to the question. If you do not wish to respond to a given question, please do not delete it but simply leave the text "ENTER RESPONSE HERE" between the tags.
- Provide all comments in English.
- Assign a unique file name to your response form.
- Submit the response form as a Microsoft Word document.
- Submit the response form to standards@cfainstitute.org by 5:00 PM E.T. on 19 October 2020.

General Information (required)

Respondent: *(Please enter your full name if you are submitting as an individual or the name of the organization if you are submitting on behalf of an organization.)*	INREV - the European Association for Investors in Non-Listed Real Estate Vehicles.
Stakeholder Group: *(Please select the stakeholder group with which you most closely identify.)*	Investor
Region: *(If you are submitting as an individual, please select the region in which you live. If you are submitting on behalf of an organization and the organization has a significant presence in multiple regions, please select "Global". Otherwise, please select the region in which the organization has its main office.)*	Europe
Country: *(If you are submitting as an individual, please enter the country in which you live. If you are submitting on behalf of an organization, please enter the country in which the organization has its main office.)*	The Netherlands
Confidentiality Preference: *(Please select your preference for whether your response is published on the CFA Institute website.)*	yes, my response may be published

Consultation Paper Questions

Market Needs

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

<QUESTION_01>

Agree with the approach. At the moment there are many new initiatives and frameworks that could become unmanageable if not carefully considered. There should be harmonization among different standards and consistency with the regulatory initiates in relation to ESG disclosure.

INREV already has Sustainability Best Practice Guidelines for non-listed real estate industry and would be happy to collaborate with the CFA Institute to create consistency and harmonisation on the standards.

As a separate note, ESG should be considered with the governance topic which spreads beyond environmental and social matters.

<QUESTION_01>

Terminology

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

<QUESTION_02>

It is not clear whether the term ‘’investment product’ includes closed ended funds or JVs. How does the CFA Institute normally define the spectrum of investment products?

<QUESTION_02>

Purpose and Scope

Question 3: In addition to the examples listed in Table 1, which regulations and standards, either in existence or in development, should be considered during the development of the Standard to avoid duplication or conflict and to ensure alignment and referencing if and when applicable?

<QUESTION_03>

We suggest adding;

- Industry specific sustainability standards as a separate category in the table. For example, “Building Certifications (e.g. BREEAM, LEED)” and “Energy Ratings (e.g. EU EPC)” for the real estate industry
- Sustainability indexes as a separate category in the table, such as DJSI, MSCI ESG.
- Specifications for materiality assessments as a separate category in the table, such as SASB and GRI

- Sector specific climate risk tools and assessments under “Specifications for benchmarks” category, such as CRREM and GRESB for real estate industry
- UN Global Compact under “Codes and Principles of Investing”
- Carbon Disclosure Project (CDP) under “Specifications for measurement and reporting”

Regulation EU 2019/2088 Sustainable Finance Disclosure Regulation (SFDR) could be listed under both product disclosure and issuer disclosure.

We recommend to merge two categories in two one; “Specifications for measurement or reporting” and “Specifications for issuer disclosures”

As a high level comment, we encourage the CFA Institute to align with and promote standards that are widely endorsed in the real estate industry and directly refer to these in its own guidance. The CFA Institute is also recommended to provide more clarity on the additional value it is trying to achieve with the proposed standards.
<QUESTION_03>

Question 4: Do you agree that a disclosure-based approach would be more helpful to achieve the Standard’s goals of transparency and comparability than a prescriptive-based approach?

<QUESTION_04>

Agree. However, this risks the situation that disclosures become narrow and boiler plate in nature, adding little value while introducing cost for the manager. For this reason, a ‘comply or explain’ model would be better, as that puts an obligation on the manager to provide fair and balance disclosure with a level of detail appropriate to its investors’ needs

The regulatory ~~initiates~~ initiatives in relation to ESG disclosure should be also taken into account while developing new standards.

<QUESTION_04>

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

<QUESTION_05>

We think there are benefits of having standards on firm-level disclosure alongside with the product-level disclosure. Firm level disclosure is important to understand whether a company has;

- a strong ESG strategy to safeguard its long-term success
- integrated ESG into all decision making processes
- systems to assess ESG performance of its products
- systems to measure their progress against a wide range of ESG targets
- systems to track ESG performance in its supply chain

When considering ESG, funds do not exist in isolation from their manager. Further the models used to manage ESG will vary between houses and vehicle type. Therefore, to get a complete and balanced view of the ESG impacts on any individual investor, it is necessary to provide disclosures on both manager and vehicle.

<QUESTION_05>

Question 6: Do you agree that an asset manager should be permitted to choose the investment products to which they apply the Standard rather than be required to apply the Standard to all their investment products with ESG-related features?

<QUESTION_06>

The default position is that if a manager is to comply, all of its funds should be in scope. If a manager wishes to remove from scope certain investment products, then the onus should be on the manager to justify to investors the reasons for exclusion

<QUESTION_06>

Design Principles

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

<QUESTION_07>

We recommend the CFA Institute clarifies the reason behind and the need for the CFA Institute determining these definitions. Surely one of the impediments to ESG becoming more mainstream is absence of a suitable taxonomy. The EU taxonomy is already vast and sits in law. A further set of definitions is going to lead to more confusion and make it more difficult for ESG principles to be adopted.

If there is the intention to define ESG-related terms, “global harmonization and consistency with regulatory initiatives” should be added as a principle

<QUESTION_07>

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

<QUESTION_08>

Regarding the first requirement (i.e. “Disclosure requirements should focus on relevant, useful information”) we recommend the CFA Standards provides guidance on defining relevant/material information. We suggest the CFA Institute considers industry established materiality mapping frameworks as a starting point, e.g. Sustainability Accounting Standards Board’s (SASB) Materiality Map.

We also suggest that the items listed below would be considered as part of the principles.

1. Same principles should apply to ESG disclosures as for financial information, ie information should be:
    a. Complete
    b. Comparable
    c. Relevant
    d. Reliable
2. To prevent ‘green washing’, the disclosures should be anchored back into the objectives or strategy for an investment vehicle and excluded if they can’t meet this test.
3. A principles approach placing the obligation on the manager to give a balanced view is therefore critical.
4. The quality of disclosure would be enhanced by independent review or audit.
5. This raises the wider point of who pays for the additional reports.

<QUESTION_08>

Question 9: Should the Standard require that all disclosures be made in a single document? If disclosures were spread across multiple documents, would that pose a challenge for investors to understand and compare investment products?

<QUESTION_09>

Agree. Splitting disclosures amongst documents increases the risks of missed disclosure, of misunderstanding by the reader and of other errors.

Investment vehicle disclosures should be provided alongside the annual report and accounts. A manager’s disclosures should be provided in its own annual report on ESG.

<QUESTION_09>

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

<QUESTION_10>

As disclosures will be split between a report(s) on the investment vehicle and one on the manager, the value of disclosure to investors will be higher if both reports go through an assurance process.

<QUESTION_10>

Question 11: Should independent examination be required, or should it be recommended as best practice but ultimately left to the discretion of the asset manager?

<QUESTION_11>

It could be optional and recommended as best practice. It would be up to investors and investment managers to determine whether the value of assurance exceeds the cost.

Managers should state whether ESG data has been externally assured. If yes, they should disclose assurer and assurance letter.

<QUESTION_11>

Question 12: Should the independent examiner (i) examine the disclosures relative to only the design of the investment product, or (ii) examine the disclosures relative to both the design and implementation of the investment product?

<QUESTION_12>

Option (ii) is preferable although the traditional route taken by managers over the last two decades has been option (i) first before progressing to option (ii). It is important that the manager signals its intentions in this respect which should be part of disclosures and form part of engagement with investors.

<QUESTION_12>

Proposal for General Disclosure Requirements

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

<QUESTION_13>

The topics listed below can be added:

- How material ESG topics are identified for an investment product
- The process of ESG risk assessment
- How ESG related risks are managed

<QUESTION_13>

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

<QUESTION_14>

It is important to anchor disclosures back to relevant sustainability goals/frameworks. However, it should not be forgotten that the disclosure should be beyond an investment product's intention to align with policy goals, such as the UN SDGs. Instead, the disclosure requirements should address how the policy goals are targeted and with which specific indicators.

In addition, the codes of governance should also be considered as part of ESG.

The governance approach might appear to be referring to stewardship decisions a manager makes in relation to its investments and specifically interests in shares. This is only rarely relevant in a real estate context, given that managers typically operate the assets on behalf of investors. This distinction should be clarified lest this creates unduly onerous (and perhaps pointless disclosures) for real estate funds.

<QUESTION_14>

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

<QUESTION_15>

The disclosure might include the information on where to find the disclosure made based on the regulatory requirements. However this should not bring additional reporting burden.

<QUESTION_15>

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

Question 16: Do you believe that "ESG Integration" is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_16>

"ESG Integration" is a clear and appropriate name. For the other ESG related features identified in the consultation paper, we recommend the CFA Institute to consider existing ESG investment approaches that are currently used. For instance, the Global Sustainable Investment Alliance's classification on sustainable investment could be taken into account; Negative/Exclusionary Screening, Positive/Best-in-class Screening, Norms-Based Screening, ESG Integration, Sustainability Themed Investing, Impact/Community Investing, Corporate Engagement and Shareholder Action

<QUESTION_16>

Question 17: If an investment product had Feature (A), and only Feature (A), as defined above, would it be consistent with the CFA institute policy paper "Positions on Environmental, Social, and Governance Integration"? In other words, would it be clear that material ESG-related factors are considered alongside traditional financial factors solely for the purpose of seeking to improve risk-adjusted returns? If not, please suggest how that could be made clearer.

<QUESTION_17>

Agree. We would add that the ESG integration should have systematic and explicit inclusion of ESG factors into the investment decision making processes and financial analyses.

<QUESTION_17>

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

<QUESTION_18>

This seems extremely prescriptive. Text either needs to be substantially simplified or take a different approach.

<QUESTION_18>

Question 19: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (A)? Are there issues that should be added, deleted, or modified?

<QUESTION_19>

ENTER RESPONSE HERE

<QUESTION_19>

Question 20: Do you believe that "ESG-related Exclusions" is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_20>

On a general note, the purpose of this classifications needs to be clarified

<QUESTION_20>

Question 21: Are "negative screening" and "norms-based screening" similar enough, particularly in the types of issues to be addressed by disclosure requirements, that they can both be covered by Feature (B) ESG-Related Exclusions? If you prefer that they be two separate features, please explain the key differences in function, benefits, and disclosure requirements.

<QUESTION_21>

We believe the terms used under ESG screening practices are considerably different – please see some examples below. In addition to "negative screening" and "norms-based screening", "positive/best in class screening" could be part of ESG screening practices.

- Negative screening is the exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria. Examples could be funds that exclude companies involved in the production of alcohol, tobacco or gambling products.

- Positive/best in class screening is investment in sectors, companies or projects selected for positive ESG performance relative to industry peers. It could be based on a specific benchmarking, e.g. GRESB for real estate or DJSI companies
- Norms-based screening is screening of investments against minimum standards of business practice based on international norms, such as those issued by the OECD, ILO, UN and UNICEF. Example could be investing in companies committed in UN Global Compact.

The term “ESG-related Exclusion” reads as it covers only “negative screening”. An overarching term could be “ESG-related Screening” which would cover all three screening practices.

<QUESTION_21>

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

<QUESTION_22>

ENTER RESPONSE HERE

<QUESTION_22>

Question 23: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (B)? Are there issues that should be added, deleted, or modified?

<QUESTION_23>

ENTER RESPONSE HERE

<QUESTION_23>

Question 24: Do you believe that “Best-in-Class” is a clear and appropriate name for this feature? If not, is “Positive ESG Performance Profile” a better name? If you dislike both of these names, please suggest an alternative and explain why it would be a better choice.

<QUESTION_24>

In addition to our answer for Q21, “best in class” will be transient over time. A term to be avoided when accompanied with such a detailed definition.

<QUESTION_24>

Question 25: Do you agree that Feature (C) is distinct enough, particularly in the types of issues to be addressed by disclosure requirements, that it should be separate from other features? If not, please suggest the feature with which it should be combined.

<QUESTION_25>

Please see the previous answer

<QUESTION_25>

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

<QUESTION_26>

ENTER RESPONSE HERE

<QUESTION_26>

Question 27: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (C)? Are there issues that should be added, deleted, or modified?

<QUESTION_27>

ENTER RESPONSE HERE

<QUESTION_27>

Question 28: Do you believe that "ESG-related Thematic Focus" is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_28>

To provide more meaning on this phase, an obligation on the manager could be introduced to provide fair and balanced disclosure supported by an effective assurance process that considers the scope and nature of disclosures in addition to actual outcomes.

<QUESTION_28>

Question 29: Do you agree Feature (D) is distinct enough, particularly in the types of issues to be addressed by disclosure requirements, that it should be separate from other features? If not, please suggest the feature with which it should be combined.

<QUESTION_29>

ENTER RESPONSE HERE

<QUESTION_29>

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

<QUESTION_30>

ENTER RESPONSE HERE

<QUESTION_30>

Question 31: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (D)? Are there issues that should be added, deleted, or modified?

<QUESTION_31>

ENTER RESPONSE HERE

<QUESTION_31>

Question 32: Do you believe that "Impact Objective" is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_32>

ENTER RESPONSE HERE

<QUESTION_32>

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

<QUESTION_33>

ENTER RESPONSE HERE

<QUESTION_33>

Question 34: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (E)? Are there issues that should be added, deleted, or modified?

<QUESTION_34>

ENTER RESPONSE HERE

<QUESTION_34>

Question 35: Do you believe that "Proxy Voting, Engagement, and Stewardship" is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_35>

ENTER RESPONSE HERE

<QUESTION_35>

Question 36: Do you agree that "Proxy Voting, Engagement, and Stewardship" should be a distinct feature? If not, would you prefer that the types of issues to be addressed by disclosure requirements be redistributed to other features or to general disclosures?

<QUESTION_36>

ENTER RESPONSE HERE

<QUESTION_36>

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

<QUESTION_37>

ENTER RESPONSE HERE

<QUESTION_37>

Question 38: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (F)? Are there issues that should be added, deleted, or modified?

<QUESTION_38>

ENTER RESPONSE HERE

<QUESTION_38>

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

<QUESTION_39>

ENTER RESPONSE HERE

<QUESTION_39>

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

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

<QUESTION_40>

Within the spectrum it is important to clarify difference between the proposed ESG related features and philanthropy.

<QUESTION_40>

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

<QUESTION_41>

ENTER RESPONSE HERE

<QUESTION_41>

Question 42: Do you agree with the classification of ESG-related features according to ESG-related needs, as shown in Table 3? If not, how might it be improved?

<QUESTION_42>

We recommend the CFA Institute clarifies the purpose of this table and how it is going to be used. Proposals should be specific on these points.

<QUESTION_42>

Users and Benefits

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

<QUESTION_43>

The myriad of different frameworks and the new terminology might be confusing.

<QUESTION_43>

Question 44: Do you agree with the terms used to define the users of the Standard? Are there any terms we should include, or avoid using?

<QUESTION_44>

ENTER RESPONSE HERE

<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

Does the CFA Institute intend to publish as separate document/consultation paper for the disclosures on actual ESG impacts?

Measures of inputs, outputs and actions are required to give a balanced view of ESG performance and recommendations of output measures (i.e. the actual impacts) arising from investing and operating assets.

<GENERAL_COMMENTS>