CFA Institute

ESG STANDARDS

A Call for Greater Transparency

Investors' appetite for investment products that consider environment, social, and corporate governance (ESG) issues is surging, and investment managers are responding with a variety of products designed to meet a variety of investor needs and preferences.

Investment managers have numerous ways of considering ESG issues when designing and implementing an investment fund or strategy. For example, managers can:

- establish explicit environmental or social objectives that are pursued alongside financial returns,
- use screening criteria to exclude or include certain types of investments,
- identify and analyze ESG information that is material to their analysis of an investment's potential risk and return,
- establish targets for asset allocation or the aggregate ESG characteristics of the portfolio, and
- consider ESG issues in their proxy voting, engagement, and other stewardship activities.

Investors and their intermediaries, such as consultants and advisors, need to be able to understand the methods used to construct and manage investment products. Without that understanding, they are less likely to invest in, or recommend, a product because they cannot evaluate the degree to which a product meets their, or their client's, needs and preferences. Additionally, when investment managers don't provide complete, consistent, and clear information about the ESG approaches used in their products, they expose themselves to allegations of "greenwashing." They may even run afoul of certain regulations.

Some critics of the industry believe investment managers are being intentionally vague or misleading in order to take advantage of investors' interest in, or concerns about, environmental, social, and corporate governance issues. But the root cause, more often than not, is simply that managers' investment product disclosures are not meeting the marketplace's expectations for transparency, quality, and reliability.

Standardization is the Solution

Misalignments in the expectations of buyers and sellers are often resolved through the use of standards. For example, prior to the development of the CFA Institute **Global Investment Performance Standards** (GIPS®), it was difficult to make meaningful comparisons of the historical investment performance among different funds and strategies. The GIPS standards solved this problem by establishing standards for the calculation and presentation of historical investment performance.

Similarly, investors today have difficulty making meaningful comparisons of ESG approaches used in investment products. The CFA Institute Global ESG Disclosure Standards for Investment Products (the "Standards") solve this problem by establishing the information that managers should disclose about the ESG approaches used in an investment product. The Standards are focused on this aspect of disclosure and this aspect alone. The Standards do not address corporate issuers' ESG disclosures, firm-wide ESG disclosures, the content of investment products' periodic reports, or the naming, labeling, or rating of investment products. Additionally, the Standards are "policy-neutral" in that they do not attempt to influence investors' investment product selection decisions, intermediaries' recommendations, or capital flows in aggregate.

A Global Standard

The Global ESG Disclosure Standards for Investment Products are the first standards that are designed to be applicable for:

- all types of investment vehicles—including but not limited to pooled funds, exchange-traded funds (ETFs), strategies for separately managed accounts, limited partnerships, and insurance-based investment products;
- all asset classes—including but not limited to listed equities and fixed income, private equity, private debt, infrastructure, and real estate;
- all ESG approaches—including but not limited to ESG integration, exclusion, screening, best-in-class, thematic, sustainability themed investing, impact investing, and stewardship;
- active and passive strategies; and
- all markets.

Additionally, standardized testing procedures have been developed to enable third parties to provide independent assurance on investment managers' ESG Disclosure Statements.

Developed by Experts through Due Process

The quality of a standard is influenced by who develops it and how it is developed. The Standards have been, and will continue to be, developed, maintained, and promoted through a collaboration of volunteer subject matter experts and CFA Institute through a process informed by public consultation. The Standards are jointly approved by CFA Institute and its ESG Technical Committee. The ESG Technical Committee volunteers are selected for their experience and expertise in ESG investing as well as to achieve diversity across geographical regions and types of market participants.

How to Comply

An investment manager must do four things in order to state that its ESG disclosures for a particular investment product comply with the Standards:

1. Document its policies and procedures for establishing and maintaining compliance with the requirements of the Global ESG Disclosure Standards for Investment Products.
2. Prepare one or more ESG Disclosure Statements.
3. Notify CFA Institute by submitting a form on the CFA Institute website (upon completion of the first ESG Disclosure Statement and annually thereafter).
4. Make its ESG Disclosure Statements available to investors.

The Standards are designed to be applied on a product-by-product basis. In other words, managers do not need to apply the Standards to all of their products. Many "early adopters" are moving forward by piloting the Standards for a small number of investment products.

CFA Institute provides the Standards free of charge as part of its mission to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. Additionally, CFA Institute offers resources to help managers comply with the Standards. These resources are available on the **CFA Institute website** and questions can be directed to the **ESG Helpdesk.**