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Gwil Mason
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Dear Mr. Mason,

CFA Institute welcomes the opportunity to comment on the FCA Discussion Paper (DP 21/4) "Sustainability Disclosure Requirements (SDR) and investment labels".

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow. There are more than 175,000 CFA® Charterholders worldwide in more than 160 markets. CFA Institute has nine offices world-wide and 160 local member societies.

Our organization has been actively engaged on ESG developments in the finance industry over the past several years. The increasing interest in investment products with sustainability-related characteristics, and investors' demand for greater transparency on financial products with ESG features and objectives, have prompted CFA Institute to form several working groups and committees composed of industry professionals with the aim of developing a voluntary disclosure standard for the ESG-related aspects of investment products. CFA Institute published its Global ESG Disclosure Standards for Investment Products on 1st November 2021.

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Respectfully,

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Q1: What are your views on the tiered approach set out in Figure 2? We welcome views on any concerns and/or practical challenges.

CFA Institute supports the FCA's proposal to use both disclosures and labels to facilitate investment product transparency and comparison. When thoughtfully designed, both approaches can be effective in providing information to investors. Each approach has relative advantages and disadvantages when compared to the other. One relative advantage of disclosures is that they have more informational content than labels. The associated drawback, however, is that disclosures can require more effort to interpret than labels. On the other hand, one relative advantage of labels over disclosures is ease of use. The associated drawback is the challenge of building awareness among consumers and educating them about the labelling criteria. Disclosure and labelling regimes are not mutually exclusive. When combined, the result is a regime that can help inform and protect a wider spectrum of investors.

CFA Institute supports the idea of summary and detailed disclosures. Detailed disclosures are needed because, currently, much of the sustainability-related information provided to investors is overly generalized—to the point that it is insufficient for investors to determine whether a product meets their sustainability-related preferences. Summaries are needed because detailed disclosures may run several pages in length. CFA Institute advocates that investment product disclosures be truthful, accurate, complete, understandable, and presented in a format that communicates the information effectively. An upfront summary of detailed information is best practice in the art of technical writing. We recommend that the summary and detailed disclosures be contained within the same document if possible.

Labels and disclosures for a particular product should be mutually supportive—that is, investors should be able to "drill down" to obtain the detailed information that supports the label carried by the product. This does not imply that labelled products should have disproportionally more disclosures than unlabeled products. As a principle, all products should disclose sufficient information to allow investors to determine whether any particular product is suitable for their needs and preferences.

We recommend that the FCA view disclosures, labels, and classification as distinct approaches that need not exist in a tiered/hierarchical relationship as illustrated in Figure 2. Tiered/hierarchical structures are often constraining and inflexible. We recommend the FCA consider more modular, flexible approaches as well.

In addition to disclosures, labels, and classification, we recommend that the FCA simultaneously consider creating or updating guidance for the naming of investment products. Questions about product naming that are likely to arise in the context of labelling and classification include:

- Under what circumstances would managers be allowed or prohibited from using key words that are used for labels and classification—e.g., "sustainable", "responsible", "impact"—in the names of their products?

- Can a product that systematically considers financially material ESG issues in investment decisions use "ESG" in its name even if such ESG issues are only one type of information within a mosaic of information considered when making investment decisions?

Q2: Which firms and products should be in scope of requirements for labels and disclosures? We particularly welcome views on whether labels would be more appropriate for certain types of product than for others, please provide examples.

Disclosure requirements: To achieve the objectives listed in item 2.2 of the Discussion Paper, CFA Institute recommends that all investment firms and products be subject to ESG/sustainability-related disclosure requirements. Due to the variation among firms and products, disclosure requirements should be constructed using conditional triggers: If a product/firm has or does [X], then [Y] must be disclosed.

Labels: CFA Institute recommends that labels be reserved for products that meet certain pre-determined criteria. This is generally consistent with how labelling programs work within the investment management marketplace and beyond. Products that meet the criteria can carry the label, and those that do not meet the criteria cannot carry the label.

Q3: Which aspects of these initiatives, or any others, would be particularly useful to consider (for example in defining terms such as responsible, sustainable and impact) and how best should we engage with them?

Investment product ESG disclosure requirements: CFA Institute recommends that investment product ESG disclosure requirements be based on the Global ESG Disclosure Standards for Investment Products and aligned with the recommendations put forth by IOSCO in its recently published Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management, Final Report. The Global ESG Disclosure Standards for Investment Products have a number of features that make them an ideal resource for regulators. Among other things, they:

- Protect investors by establishing ethical standards for the fair representation and full disclosure of how an investment product considers ESG issues in its objectives, investment process, and stewardship activities;
- Are policy-neutral and do not attempt to influence end-investors' investment product selection decisions or capital flows in aggregate;
- Accommodate the full range of investment vehicles, asset classes, and ESG approaches offered in markets around the world;
- Contribute to capital market integrity and efficiency by establishing disclosure requirements that are relevant and useful to investors and that allow investment products to fairly compete on equal terms;

- Are compatible with, and complementary to, SFDR and TCFD supplemental guidance for asset managers; and,
- Were developed through a transparent, collaborative process guided by volunteer investment professionals and informed by two rounds of public consultation.

CFA Institute would be pleased to contribute material from the Standards and discuss with the FCA the mechanisms by which the Standards might be incorporated into the FCA's rule-making.

Labels: CFA Institute recommends that the FCA review the following labelling/certification programs before creating labels for the UK market:

- RIAA Responsible, Sustainable, and SRI Certifications (Australia & New Zealand)
- Österreichisches Umweltzeichen (Austria)
- Febelfin Towards Sustainability Label (Belgium)
- SRI Label, Greenfin Label, Finansol Label (France)
- LuxFLAG ESG, Environment, and Climate Finance Labels (Luxembourg)
- FNG-Siegel Label (Germanic Region)
- Nordic Swan Ecolabel (Nordic Region)
- EU Ecolabel (EU, under development)

Q4: Do you agree with the labelling and classification system set out in Figure 3, including the design principles we have considered and mapping to SFDR? We welcome views on further considerations and/or challenges.

Design principles: CFA Institute agrees with the design principles described in the Discussion Paper:

- Labelling and classification must be based on objective criteria, not the subjective judgment of the individual evaluating products against the criteria. There is no reason, however, why one label/category cannot have more stringent criteria than another label/category, thus creating a system whereby products can be systematically ranked.

- Classification systems must be mutually exclusive and completely exhaustive (i.e., every element in a set must be placed in one and only one sub-group). CFA Institute recommends explicitly stating that labelling systems do not need to be mutually exclusive and completely exhaustive.

- Different types of criteria can be used in labelling and classification systems (e.g., product design, holdings, and outcomes). Because classification systems must be mutually exclusive and completely exhaustive, it is much more difficult to combine different types of criteria in a classification system than a labelling system.

- The words used for labels and product classes should reflect the characteristics of products that carry the label or that are within the class. CFA Institute recommends that the words used for labels and product classes be free from implications about values or morality.

In our view, fewer labels will create a stronger regulatory regime. It is possible for multiple labels to exist within the marketplace, but the greater the number of labels, the less likely consumers are to understand them and use them.

Labelling: We recommend that the FCA develop a labelling system whereby products that meet certain requirements are allowed to carry a word, mark, or symbol. Labels are an efficient and effective way to communicate to investors that a product meets certain criteria, and labels naturally create product differentiation within the marketplace. A labelling approach offers a great deal of design flexibility in that:

- Labelling criteria can be multi-dimensional
- Multiple labels can exist within a labelling system
- Labelling criteria for each label can be managed independently
- Labels do not need to have criteria that are mutual exclusive
- Not every product needs to carry label
- Labels can represent different grades of quality or performance

Applying the principle of parsimony, we believe the FCA should begin with a single label that designates a product meets certain criteria for "sustainability" as described in more detail in our response to Question 8. We recommend starting with this label because we believe that many end investors would like to invest in products in which investment returns are driven by sustainable economic activities rather than at the expense of the planet and other individuals. Once the marketplace becomes familiar with the meaning of a "sustainability" label, more sophisticated labels such as "impact" and "transitioning" could be introduced.

Classification: A "sustainable" label would create a natural bifurcation of products in the marketplace. We believe that there is another distinction, however, that is important to end investors. Specifically, many end investors want to know whether an investment product systematically considers financially material ESG issues in investment decisions (where "financially material" implies the manager continually works to determine and evaluate those ESG issues that are material to the risk and return of prospective and actual investments within the context of the investment product's objectives and time horizon). This is important to end investors because the world is changing in unprecedented ways, and end investors want to know if managers are explicitly and systematically considering how emerging risks and opportunities will affect the value of their investments. We believe that this aspect of a product should be addressed through disclosure—that is, if an investment product systematically considers financially material ESG issues in investment decisions, then certain details should be disclosed (see Provisions 2.A.6 and 2.A.7 of the Global ESG Disclosure Standards for Investment Products). Such disclosures would create another natural bifurcation in the marketplace. Together, a "sustainable" label and disclosure requirements would effectively create a classification system that would allow investors

to identify "sustainable" products, "ESG integrated" products, and products that are both or neither.

We worry about the development of a regulatory-enshrined classification system that attempts to assign all products in the marketplace to a mutually exclusive product class. Classification works best when it is used to differentiate items along one or, at most, two dimensions. Investment products are inherently complex and multi-dimensional, and investors have varying ESG-related preferences. Thus, it is challenging to reach agreement on the primary dimensions that should be used for a classification system. Additionally, some of the attributes that one would want to use for classification are not mutually exclusive (e.g., a product could have both high allocation to taxonomy-aligned sustainable activities and an objective of delivering positive environmental or social impact). This makes it very challenging to place products in one and only one category. Furthermore, classification systems can quickly become "out of date" as new products with new attributes are developed, and it may be difficult for a regulatory-enshrined classification system to keep pace. The marketplace will naturally classify products according to various needs so long as the appropriate information is available to do so. Thus, in our view, it is best for the FCA to focus on regulatory-supervised labels and disclosures rather than a mutually-exclusive classification system.

We also recommend caution in attempting to map product classes (Figure 3) to disclosure requirements (articles in SFDR) because product classes and disclosure requirements are different concepts. There is not enough detail in the proposal nor clear enough guidance from the EU to assess for us to provide feedback on the mapping presented in the Discussion Paper.

Q5: What are your views on 'entry-level' criteria, set at the relevant entity level, before products can be considered 'Responsible' or 'Sustainable'? We welcome views on what the potential criteria could be and whether a higher entity-level standard should be applied for 'Sustainable' products. We also welcome feedback on potential challenges with this approach.

Labelling: CFA Institute advocates for high-quality, ethical, and professional management of all investment products and strategies, and this includes having well-designed and documented processes, sufficient and properly-trained resources, and proper decision-making, oversight, and controls. These elements should be the baseline expectation for all product manufacturers, not a higher bar that must only be met to label some products as "responsible" or "sustainable."

More generally, we urge caution about including entity-level criteria as part of product-labelling criteria.

A reasonable argument can be made that investment products are not physical items that are purchased and remain static as much as they are ongoing services that are governed by organizational policies and processes. It should not be assumed, however, that all investment managers have a single firm-wide ESG approach that is incorporated into all of their products. Many investment managers, particularly larger firms, offer highly differentiated products to meet a wide range of investor ESG-related preferences. Furthermore, an increasing number of firms are

moving proxy voting decisions from the firm-level to the product level to align voting decisions with the objectives and strategies of products.

Some argue that product manufacturers should "walk the talk," or in other words, product manufacturers should have sustainable practices for their own business activities (e.g., manage their own carbon footprint, recycle/limit use of paper) if they offer a "sustainable" investment product. Decisions about business activities, however, often need to be made independently from decisions about product offerings. We recommend that regulators do not force an unnatural interdependency between such decisions. The practices, experience, and reputation of the manufacturer, however, are often important considerations when consumers purchase products. We suggest that a "manufacturer certification" is a good way to communicate to consumers that a manufacturer adheres to certain standards throughout their entire operation.

Establishment of minimum entity-level requirements for the use of product labels would likely pose an additional barrier to entry and could result in fewer responsible/sustainable products being offered and less competition in the marketplace.

Minimum entity level requirements could also pose a problem for mergers and acquisitions. What if a firm that met the minimum entity level requirements and offered products with the sustainable/responsible label was acquired by a firm that did not meet the minimum entity level requirements? Would the new combined firm need to immediately remove those labels from its products?

Disclosure: We do, however, support entity-level disclosures and reporting. Entity-level disclosures can provide end investors with relevant information including such things as the percentage of the entity's product offerings that carry a "sustainable" label, the percentage of offering that systematically consider financially material ESG issues in investment decisions, the extent to which stewardship activities are undertaken at the entity level versus the product level, the quantity and type of ESG expertise within the entity and how such resources are organized.

Q6: What do you consider to be the appropriate balance between principles and prescription in defining the criteria for sustainable product classification? We welcome examples of quantifiable, measurable thresholds and criteria.

Labelling and classification criteria are inherently prescriptive. Criteria must establish the features that a product must have, a performance threshold that must be met, or a process by which a product is manufactured. Criteria should be constructed so that products can be objectively tested against the criteria. For example: To carry the Sustainability Label, the product must continually invest at least 70% of its assets under management in economic activities deemed to be sustainable by the UK Taxonomy.

We urge the FCA to refrain from prescribing that any particular ESG approach be used in all investment products. Investment professionals should be free to construct investment products and strategies that meet the needs of their clients.

Q7: Do you agree with these high-level features of impact investing? If not, why not? Please explain, with reference to the following characteristics: intentionality, return expectations, impact measurement, additionality, other characteristics that an impact product should have.

Generally, we agree, but for product labelling and classification it is important to frame these attributes in the context of the product rather than the end investor. For example, it is not enough for a manufacturer to have an intention to make an impact. A product must express that intention through a properly constructed objective and a credible mechanism to achieve the stated objective.

We agree that impact can be achieved both through allocation of funds (at market rates or at a discount) and through stewardship activities. We recommend that the FCA make this clear in plain language rather than use the term "additionality" which is not universally understood or agreed upon. Regardless of terminology, managers should not have to prove a counter-factual to use the term "impact."

The Global ESG Disclosure Standards for Investment Products have 11 disclosure requirements that are triggered when "investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return." We deliberately used GIIN's definition for "impact investing" in the stem of the requirement because this is the most widespread definition of impact investing. Additionally, many of the disclosure requirements in the Standards are based on the Operating Principles for Impact Management.

Comment on the Sustainable – Impact category from Figure 3: The impact investing community has worked hard to preserve the meaning of "impact investing." If the FCA wishes to create an "impact" label or classification, we recommend that the criteria be based on the Operating Principles for Impact Management, which sets out the elements that a strategy must have to generate a positive environmental or social impact. Not all impact products target "sustainability" issues, and thus, not all "impact" product should be placed under the "sustainable" umbrella.

Q8: What are your views on our treatment of transitioning assets for: a: the inclusion of a sub-category of 'Transitioning' funds under the 'Sustainable' label? b: possible minimum criteria, including minimum allocation thresholds, for 'Sustainable' funds in either sub-category?

Sustainable – Aligned: We agree that it would be helpful for UK end investors if products that met certain criteria could be labelled as "sustainable." We do not recommend using "sustainable" as an umbrella term to refer to certain types of products, but rather we recommend using the term more precisely—as a label for products that meet certain sustainability criteria. While we do not have a formal position on the details of the labelling criteria, we recommend the following points for establishing such criteria:

- All criteria should be objective, specific, and testable—rather than principles-based or flexible—so that investors can be certain about the types investments that will or will not

be held in a labelled product's portfolio and so that product manufacturers can compete on a level playing field.

- Criteria for a "sustainability" label must be neither too strict nor too loose. The value of a label to consumers is its ability to quickly and meaningfully differentiate between products. If too few, or too many, products carry a label, then consumers cannot easily use the label as a differentiator. Criteria will likely need to be reviewed and updated on a regular basis to ensure the "sustainability" label retains its differentiating power as product offerings in the marketplace evolve over time.
- Research should be performed with end investors to ensure the criteria for a "sustainable" label represent the conceptual notion, held by the UK investing public, of a sustainable investment product. We suspect most end investors associate the term "sustainability" with environment business practices that conserve and maintain natural resources. We also suspect that most end investors do not automatically assume that "sustainability" implies the product would have certain positions on social issues or corporate governance, but when prompted, it is likely that most consumers would not object to criteria that helps protect basic human rights and that promotes responsible corporate governance.
- We recommend that one of the criteria for a "sustainability" label be that the product must have and continually meet a certain minimum allocation target to economic activities that have been deemed to be "sustainable" by qualified technical experts (e.g., via the EU Taxonomy or a future UK Taxonomy).
- We recommend that one of the criteria for a "sustainability" label be that the product must have and continually meet a certain maximum allocation target to economic activities that have been deemed to be "significantly unsustainable" by qualified technical experts (e.g., via the EU Taxonomy or a future UK Taxonomy). This type of maximum threshold, or thresholds, could be in the form of a 0% allocation to certain economic activities, which in effect, would be exclusions.
- Because many issuers, both commercial and government, are often involved in different kinds of economic activities, we recommend that a standard methodology be established to calculate the percentage of the commercial or government entity that is involved in "sustainable" economic activities and the percentage of the commercial or government entity that is involved in "significantly unsustainable" economic activities.
- There is, however, a significant challenge that must be overcome to use portfolio-level allocation targets as part of "sustainability" labelling criteria: the percentage involvement of commercial and government entities in "sustainable" or "unsustainable" economic activities is not standardized, regularly updated, or readily available for all commercial and government entities. Without a high rate of coverage and high-quality data, product manufacturers cannot calculate products' allocation percentages. In an ideal world, all entities would report such percentages and perhaps the best organization to take on that challenge would be the International Sustainability Standards Board. The FCA, however, might consider making the reporting of such information mandatory for issuers of securities that are listed on UK exchanges, and the PRA might consider doing the same for instruments issued via UK banks. These two steps would significantly facilitate the use

portfolio-level allocation targets to sustainable economic activities. A problem would still remain, however, in that investment products could make investments that are traded in private markets. One way to solve this problem would be to establish a maximum allocation to investments that do not have a sustainability measure. The threshold could be higher initially and ratcheted down over time as sustainability reporting standards evolve.

- The FCA might consider requiring "sustainable" products to systematically consider financially material ESG issues in investment decisions. This may be a challenge, however, because there continues to be significant debate around the concept of materiality. We believe the materiality of any given piece of information is a subjective assessment that must be made within the context of the investment objective and time horizon and that the materiality of a given piece of information can change over time. Additionally, there continues to be significant debate about how much weight should be given to ESG information vis-à-vis other types of information to claim that ESG issues are considered. Finally, there is debate around the appropriate methods and places for integrating ESG information in the investment process. Together, these challenges may make it quite difficult to establish specific, objective, testable criteria for the integration of ESG risks and opportunities.

Sustainable – Transitioning: We agree that that it would be helpful for UK end investors if products that met certain criteria could be labelled as "helping the transition to a more sustainable economy." We recommend, however, that this label be developed after a "sustainability" label has been established. While we do not have a formal position on the details of labelling criteria, we recommend the following points for establishing such criteria:

- We do not recommend using the term "transitioning" because it implies the product will meet some future state that it does not meet today. For example, would all "transitioning" products one day become "sustainable" products? We believe the term would set inappropriate expectations in the minds of end investors.
- If the FCA decides to develop a "transitioning label", we do not recommend a "transitioning" label for products that are similar to those that have a "sustainable" label but simply with a lower minimum allocation to "sustainable" economic activities. We do not believe the benefit of having two labels for different thresholds along the same dimension warrants the additional complexity of a second label. This does mean that we do not support a "transitioning" label per se, only that we believe the criteria for such a label should be more differentiated.
- Some "impact" products "help the transition to a more sustainable economy," and some "transitioning" products could be expected to make an "impact." Thus, we recommend the FCA to more clearly differentiate between "transitioning" and "impact" if they choose to develop these labels.

Q9: What are your views on potential criteria for 'Responsible' investment products?

The Discussion Paper suggests three criteria that must be met for an investment product to be labelled as "responsible":

- the consideration of the impact of material factors, including material ESG considerations, on financial risk and return,
- stewardship, and
- delivery of long-term sustainable returns.

We recommend that the FCA not use the term "responsible" as a product label. This term carries too much implied meaning in terms of values and morality, and the term inherently implies that some products are "responsible," and some are "irresponsible."

Moreover, we do not support a product label or class based on the proposed criteria. The first two criteria should be a part of any active strategy. These criteria would not result in any meaningful increase in the ability of investors to differentiate between products in the marketplace. Passive products may not be able to meet the first criterion, depending on exactly what is meant by "consideration of the impact of material factors," and there is a risk that passive products would inherently be deemed "irresponsible." The third criterion assumes that the consideration of the impact of material factors, including material ESG considerations, on financial risk and return, will result in returns that can be maintained at a certain level (or at least this is implied since "sustainable" is used as an adjective to modify "returns" and therefore must be interpreted in its usual sense meaning "repeatable and reproducible" rather than "natural resource conservation and management"). It is important that end investors not receive the impression that a product promises or guarantees to produce a certain level of returns unless such is explicitly promised.

A well-designed disclosure regime that requires disclosure of how ESG issues are considered in a product's objectives, investment process, and stewardship should be sufficient for end investors—and perhaps more importantly, product platforms, distributors, and advisors—to identify and classify products having the characteristics listed above without the need of a regulatory label or classification system.

Q10: Do you agree that there are types of products for which sustainability factors, objectives and characteristics may not be relevant or considered? If not, why not? How would you describe or label such products?

Yes, we agree. There are types of products for which sustainability factors, objectives and characteristics may not be relevant—that is, material—to the objectives, time horizon, investment process, and stewardship of the investment product. And, factors that are not relevant are typically not considered. Examples of such products could include instruments that hold a very high percentage of short-term treasury bills, certain technical strategies based on price and volume factors, and certain hedging strategies. Such products should simply be described as instruments that do not consider ESG issues in their objectives, investment process, or stewardship activities. They should not be labelled with a warning or classified in a manner that makes them seem to be

less desirable than other products. Such instruments may serve as useful and appropriate role in some investors' portfolios.

Q11: How do you consider products tracking Climate Transition and Paris-aligned benchmarks should be classified?

They should be classified as having a Climate Transition or Paris-aligned benchmark. This is a distinct feature by which investors may want to sort or filter products. Therefore, investment products that have a climate Transition and Paris-aligned benchmark should disclose that fact, and ideally, product platforms and databases would store this information in a separate field.

Use of a Climate Transition or Paris-aligned benchmark could be a criterion with a product labelling system. We do not expect it to be a powerful differentiator because a very small number of products use a Climate Transition or Paris-aligned benchmark. There are, however, many ESG indexes that are used as benchmarks and/or investment universes. We recommend that the FCA think broadly about the use of benchmarks and indexes and not focus so specifically on Climate Transition or Paris-aligned benchmarks.

Q12: What do you consider the role of derivatives, short-selling and securities lending to be in sustainable investing? Please explain your views.

Derivatives, short-selling and securities lending are sometimes used to achieve the objective of a product or strategy. ESG issues can be considered when these methods are used, just like ESG issues can be considered in virtually any other part of the investment process. Firms should disclose the use of these methods and the manner in which ESG issues are considered when used. Product labelling criteria could certainly place specific requirements or limitations on these methods, depending on what the label is intended to convey to end investors.

Q13: What are your views on streamlining disclosure requirements under TCFD and SDR, and are there any jurisdictional or other limitations we should consider?

We recommend that the FCA incorporate the TCFD recommendations in Supplemental Guidance for Asset Managers into its rule-making process. These recommendations come in two varieties: 1) "pre-contractual disclosures" – i.e., disclosures related to the design of the product / strategy, and 2) "periodic reporting disclosures" – i.e., specific metrics to be included in periodic reporting.

TCFD is limited to one ESG issue – climate change/transition to a low-carbon economy. We recommend the FCA be cautious about singling out particular ESG issues, but in this case, it may be warranted because climate is arguably the most important ESG issue.

When expanding into other ESG issues, the FCA should not mandate portfolio-level or firm-level metrics if the underlying data and measurement methodologies are not widely available and standardized.

Q14: What are your views on consumer-facing disclosures, including the content and any considerations on location, format (e.g., an 'ESG factsheet') and scope?

We agree that there is value in presenting a summary before presenting detailed information regardless of the reader's level of knowledge and skill. We recommend referring to the "layers" simply as "summary" and "detail" and to not necessarily tie them to different investor segments.

The Global ESG Disclosure Standards for Investment Products has summary disclosure requirements (2.A.1 – 2.A.5) and detailed disclosure requirements (2.A.6 – 2.A.19).

Q15: What are your views on product-level disclosures, including structure, content, alignment with SFDR and degree of prescription?

The consideration of ESG issues in a product's objectives, investment process, and stewardship activities is relevant and material to many end investors. Thus, product manufacturers have an ethical duty to disclose this information to end investors as well as third parties that distribute and sell their products. The Global ESG Disclosure Standards for Investment Products were developed using these principles, and we recommend the FCA incorporate these same principles into its approach to product-level disclosures.

Disclosure requirements need to strike a balance in their degree of prescription. To enable transparency and comparability, it is important that the disclosure requirements clearly state the information that must be disclosed. At the same time, they must be broad enough to apply to the wide variety of ESG approaches used in the marketplace. We believe the Global ESG Disclosure Standards for Investment Products has struck that balance, and the set of disclosure requirements therein are both comprehensive and concise.

We recommend caution in establishing disclosure requirements for specific ESG issues. Regulators should have a strong case for establishing disclosure requirements around specific ESG issues so as not to arbitrarily highlight certain ESG issues over others. Climate change / transition risk is arguably the one ESG issue that warrants specific disclosures requirements at this point in time. Constructing requirements around specific ESG issues will likely result in a regime that is not responsive to changes in the marketplace and that has loopholes that allow product manufacturers to avoid disclosure of material information.

We recommend that the FCA consider SFDR but not be constrained by it. There are a number of disclosure requirements in SFDR that are vague in scope or that use undefined terms.

We recommend caution in establishing specific metrics that all products must report. Products that have an environmental or social impact objective and products that have targets for portfolio-level characteristics or allocations should report regularly on the achievement of, or progress toward, their stated objectives and targets. There is, however, a wide variety of ESG issues that products might consider, and thus, it is very difficult to establish a universal set of metrics. Again, the climate-related metrics established by the TCFD could arguably be the exception to the rule.

Q16: What are your views on building on TCFD entity-level disclosures, including any practical challenges you may face in broadening to sustainability-related disclosures?

We believe that the TCFD disclosure requirements about how corporate governance, corporate strategy, corporate risk management, and corporate metrics and targets are used to address climate risks and opportunity facing an organization are appropriate entity-level disclosures. It is important, however, not to conflate an asset manager's *corporate strategy* with the *investment strategies* that it uses to manage funds and client portfolios. *Corporate strategy* is an entity-level concept. It should not be assumed that investment managers have a single, entity-level *investment strategy* or use a single ESG approach or strategy. Entity-level disclosures that cover a variety of underlying investment strategies and processes can be ambiguous, difficult for clients to understand, and even misleading.

We believe it would be difficult to broaden sustainability-related disclosures at this time because other ESG issues related to sustainability have not reached the same level of standardization as climate disclosures.

Q17: How can we best ensure alignment with requirements in the EU and other jurisdictions, as well as with the forthcoming ISSB standard? Please explain any practical or other considerations.

We recommend the FCA consider legislation and regulation in other jurisdictions and align its approach to these other regimes where the disclosure requirements are clear, relevant, and testable. The FCA should not align simply because other jurisdictions developed their rules first. First does not always mean best.

It is our understanding that the ISSB standards will pertain to corporate reporting rather than investment product disclosures. The ISSB standards may standardize certain information that could be aggregated at the portfolio-level, thus enabling additional universal product-level metrics in the future.

Q18: What are your views on the roles of other market participants in communicating sustainability-related information along the investment chain?

Consultants, advisors, distributors, and product databases/platforms are key participants that communicate sustainability-related information to end investors. It is critical that disclosures and labels are made available to these participants so that they can provide appropriate information and advice to their clients.

Q19: Do you consider that there is a role for third-party verification of the proposed approach to disclosures, product classification and labelling and organisational arrangements of product providers? Do you consider that the role may be clearer for certain types of products than others?

Yes, there is a role for third-party verification of the proposed approach to disclosures, product labelling, and organisational arrangements of product providers. In any regime where one party discloses information to another, or claims that product meets certain specifications, the receiver is exposed to the risk that the information or claims are not accurate. This type of risk can often by mitigated through independent, third-party assurance. Third-party assurance is valuable even in markets that have strong regulatory oversight and enforcement because regulators do not always have the resources to examine every disclosure and claim in the marketplace.

CFA Institute is in the process of developing independent assurance procedures for the Global ESG Disclosure Standards for Investment Products. We expect to issue the final version of the assurance procedures by 1 May 2022.

At this time, we do not see a stronger case for independent assurance for certain types of products or ESG approaches than others.

Q20: What approaches would you consider to be most effective in measuring the impact of our measures, including both regulatory and market-led approaches, and should disclosures be provided in a machine-readable format to better enable data collection and analysis?

With respect to investment product ESG disclosures, we recommend that the FCA evaluate the quality and consistency of disclosures before and after implementing disclosure requirements. This should include collecting feedback from the users of investment product ESG disclosures.

Yes, disclosures should be provided in a machine-readable format to better enable data collection and analysis.

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On behalf of CFA Institute, we appreciate the efforts of the FCA and its staff and thank you for your consideration of our comments. We would welcome the opportunity to discuss the matter with you at your convenience. Please do not hesitate to contact us at chris.fidler@cfainstitute.org.