CFA Institute

477 Madison Avenue
21st Floor
New York, NY
10022-5802 USA

+1 (212) 754 8012 tel
+1 (212) 756 7730 fax
info@cfainstitute.org
www.cfainstitute.org

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Raluca Tircoci-Craciun
International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid, Spain

Subject: Sustainability-related Disclosures for Asset Managers, Greenwashing and other Investor Protection concerns

Dear Ms. Tircoci-Craciun,

CFA Institute welcomes the opportunity to comment on the IOSCO Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management.

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 170,000 CFA® Charterholders worldwide in 162 markets. CFA Institute has nine offices world-wide and 158 local member societies.

The 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. We published an Exposure Draft of the ESG Disclosure Standards for Investment Products in May 2021, and we expect to issue the final version of the Standard in November 2021.

With regard to the IOSCO Recommendations, CFA Institute supports entity-level disclosures, but we express some concern about entity-level disclosure requirements related to investment strategies and processes. Many investment management organizations may have a multitude of strategies and processes, which typically differ from one another. Providing such information at the entity-level may be confusing to investors and users, who may not be able to use this information to make the most appropriate investment decisions. For this reason, we suggest that investment strategies and process be excluded from entity-level disclosure requirements but included as part of product-level disclosure requirements.

Regulators should encourage the use of labelling mechanisms and certification programs in their markets. Introducing requirements relating to labelling and classification would help ensure that products that are offered as sustainable products meet some minimum criteria.

Standardized ESG metrics would significantly assist investors when comparing and selecting products. However, we encourage regulators to delay requiring specific metrics until there is greater standardization and availability of ESG reporting from companies. Otherwise, investment managers will likely not have all the data necessary to calculate the required metrics.

CFA Institute believes that sustainable finance should be part of financial education initiatives that regulators and/or policymakers promote and support in their jurisdictions. Such programs should be directed to both investors and investment professionals. Investors would benefit inasmuch as they will able to better understand the information concerning ESG-related products and make investment decisions that are aligned with their preferences and views on environmental, social or governance issues. Investment professionals would also benefit from these types of programs because they do not always have a clear understanding of the objectives and benefits of products with sustainable features, and therefore cannot sufficiently justify their ESG integration practices to their clients. Professionals with an education on sustainable finance could better explain the factors that have been integrated in their investment analysis and decision, and clearly discuss with their clients the benefits to the investor and society that an investment is expected to bring.

The approach taken by IOSCO and many regulators appears to be skewed towards the “E” in ESG given that its recommendations primarily cover environment-related issues, while social and governance aspects receive significantly less attention in the Consultation Report. Perhaps these issues can be addressed in future consultations to assist those jurisdictions that wish to improve their corporate governance practices, particularly as they relate to sustainability. A singular focus on environmental issues could, for example, dilute the importance of sound corporate governance as a base of sustainability.

Finally, we would like to stress the potential role that IOSCO and its members could further play in the promotion of sustainability-related disclosures. For instance, IOSCO could develop more specific recommendations or guidelines related to sustainability disclosures, which regulators could commit to incorporating in their regulatory structure, either through guidance or the introduction of specific rules. This approach would facilitate the development of more standardized ESG-related disclosure frameworks across different markets.

Set forth below are our responses to the questions included in Chapter 6 of the IOSCO Consultation Report.

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Question 1: Will the recommendations outlined below sufficiently improve sustainability-related practices, policies, procedures and disclosure in the asset management industry and address the issue of greenwashing? Are there other areas of sustainability-related practices, policies, procedures and disclosure in the asset management industry not mentioned in this consultation report that should be addressed as separate recommendations?

CFA Institute is generally supportive of disclosure requirements for sustainability-related practices, policies and procedures at the entity-level provided that these areas are actually governed and managed at an entity-level. It is reasonable to ask asset managers to disclose their *corporate* strategy for addressing climate-related risk and opportunities. However, we do not believe that disclosures about *investment* strategies are always appropriate at the entity-level given that many asset managers have multiple, distinct investment strategies. Disclosure requirements about investment strategies should be product-level disclosure requirements rather than entity-level disclosures requirements.

The final paragraph in Recommendation 1 states:

> "Securities regulators and/or policymakers could also consider requiring that any firm-level commitments to other international or regional sustainability-related initiatives be disclosed, and that any relevant signatory reports be made publicly available."

CFA Institute supports a requirement to disclose all firm-level commitments to international or regional sustainability-related initiatives but cautions against a requirement to make any relevant signatory reports publicly available. While certain reports would likely not pose a major issue, others may contain proprietary information.

Question 2: The key areas identified are based on the key pillars of the TCFD Framework. Do you agree with this approach?

CFA Institute agrees with this approach. Investors and issuers are increasingly using the TCFD Framework for disclosure and engagement. This approach is also being adopted by the Task Force on Nature Related Financial Disclosures (TNFD) in its efforts to set standards for biodiversity related disclosures. The TCFD Framework is widely known, becoming more and more recognized, and thus, we support the use of this framework.

It is reasonable to require asset managers to provide *regulators and policymakers* with the information recommended in the TCFD Framework. Although not explicitly designed for the purpose of regulatory oversight, regulators can use the TCFD Framework to understand how asset managers are addressing climate-related risks and opportunities much in the same way that investors, lenders, and insurance underwriters are using the TCFD Framework to understand how climate-related risks could threaten the operations and financial positions of companies in which they invest, lend to, and insure.

Question 3: Should the scope of this recommendation cover all asset managers or be limited to only those asset managers that take sustainability-related risks and opportunities into consideration in their investment process?

The scope of the recommendation should not be limited to only those asset managers that take sustainability-related risks and opportunities into consideration in their investment process. The recommendation is based on the TCFD Framework which was designed to be used by a wide range of companies and industries. However, we reiterate our response to Question 1 to emphasize that entity-level disclosure requirements should pertain to *corporate* strategy while product-level disclosure should pertain to *investment* strategy.

Question 4: Should securities regulators and/or policymakers, as applicable, consider setting out different disclosure requirements for products with sustainability-related investment objectives as compared to products that promote sustainability-related characteristics?

In general, CFA Institutes agree that regulators and policymakers should consider setting out different disclosure requirements for products with sustainability-related investment objectives as compared to products that promote sustainability-related characteristics. However, it is not clear in the Consultation Report as to what constitutes a *sustainability-related investment objective* and what constitutes a *sustainability-related characteristic*. This should be clarified.

As you are likely aware, CFA Institute recently released an Exposure Draft of ESG Disclosure Standards for Investment Products (the "draft Standards") that addresses both sustainability-related objectives and sustainability-related characteristics. We plan to release the final version of these standards in November 2021. In our view, the ESG Disclosure Standards for Investment Products will be a valuable resource for regulators and policymakers. To be clear, however, we do not believe that voluntary standards are a better solution than regulation. We have developed the ESG Disclosure Standards for Investment Products because we see value in both.

If so, for which of the different areas of disclosure listed above should the requirements vary, and how should they vary? In addition, if so, should securities regulators and/or policymakers, as applicable, consider specifying thresholds or other criteria for determining whether a product has sustainability-related investment objectives as compared to sustainability-related characteristics, and what should those thresholds or criteria be?

Investment Objectives Disclosure

We agree that products should fully and comprehensively disclose all its objectives, including sustainability-related objectives, if any. We suggest that a sustainability-related objective be defined as a specified environmental or social outcome and sustainability-related characteristics be defined as aspects of the investment strategy.

Investment Strategies Disclosure

Please see the response to Question 7.

Proxy Voting and Shareholder Engagement Disclosure

Proxy voting and engagement are usually undertaken at the firm level rather than the product level. Firm-level disclosures should address overall policies for proxy voting and engagement, and product-level disclosures should note whether the product deviates from those policies, and if so, how. Disclosure of proxy voting and engagement records would also likely be more appropriate at the firm level, unless the product has unique policies for proxy voting and engagement.

Risk Disclosure

Risks arising from a product's concentration in certain types of investments are not unique to sustainability-related products. Most investment products concentrate on certain types of investments. A total stock market index fund, for example, concentrates on equities. However, if a product is invested in a very small number of investments (e.g., target date and multi-asset funds of funds), this could warrant additional disclosure.

Risks arising from reliance on third-party data/rating providers are not unique to sustainability-related products either. Indeed, ESG data sets are not yet as complete or reliable as traditional financial data sets built upon audited financial reporting data. However, this does not mean all ESG data sets are incomplete or inaccurate. Risks related to third-party data could be part of a disclosure about risks and limitations of the investment product or strategy.

In general, CFA Institute would recommend that regulators and policymakers apply, and extend as needed, existing risk disclosure requirements rather than creating a new risk disclosure requirement specifically for sustainability-related products. More specifically, CFA Institute generally supports disclosure, by all products, of how they identify, assess, and respond to systemic sustainability-related risks. To the extent that climate, environmental, and social risks are increasingly reflected in financial markets, this sort of risk disclosure seems reasonable for all products. To be clear, however, the purpose of this disclosure requirement should be to assist investors in understanding how systemic sustainability-related risks can impact their investments—not how the underlying economic activities in which the product invests may impact climate, the environment, and society.

Marketing Materials and Website Disclosure

CFA Institute agrees that marketing materials and website disclosures should be consistent with regulatory filings.

Question 5: Should naming parameters permit the product name to reference sustainability only if the investment objectives refer to sustainability?

It is common for an investment product name to reflect the underlying objectives or characteristics of the product. Therefore, if a product name references sustainability, the product should have sustainability-related objectives or characteristics. However, it may be difficult to establish a bright line for *how* and *how much* the investment objectives must refer to sustainability in order to use *sustainability* in the name. For example, would an investment objective to "sustainably provide long-term capital appreciation and income" pass the test?

While a reference to sustainability in the investment objectives is a reasonable criterion for referencing *sustainability* in the product name, it would likely be insufficient if it were the sole criterion. Many investors would likely assume that a significant portion of the product's portfolio was invested in sustainable investments, much like investors assume that a product with *equity* in the name is significantly invested in equities. It is straightforward to calculate a portfolio's asset class allocation, but to do the same for sustainability, one needs a standard that sets out what sorts of investments are sustainable—e.g., the EU Taxonomy.

If regulators or policymakers wish to establish criteria that a product must meet in order to reference *sustainability* in its name, CFA Institute suggests they review the criteria used by the following labeling and certification programs:

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

<u>Question 6</u>: Should a product need to have an ESG, SRI or similar label in order to be marketed as a sustainability-related product?

ESG, SRI, or similar labels are useful mechanisms to assure investors that a product meets certain specifications. If labelling and certification programs exist within a market and the programs are large enough and broad enough to cover the quantity and breadth of products in the marketplace, then requiring such a label or certification to market a product as a sustainability-product is not unreasonable. However, if such programs do not exist or are not capable of meeting the demand for their labels and certifications, then such a requirement would likely reduce the availability of sustainability-related products and make it less likely that investors could satisfy their sustainability-related needs and preferences.

CFA Institute suggests that regulators and policymakers encourage and support labelling and certification programs for their markets. Many highly successful labelling and certification programs exist for other types of products. For example, the Kitemark ™ developed by the British Standards Institution and the Energy Star label developed by the US Environmental Protection Agency are successful programs that have helped many consumers select products that meet specifications for safety and energy efficiency, respectively. There is no reason that similar labelling and certification program cannot work in the investment management industry.

<u>Question 7</u>: Do you agree with the specified areas of investment strategies disclosure?

Yes, CFA Institute generally agrees with the specified areas of investment strategy disclosure.

- Investment universe: Disclosure requirements about the investment universe are practical only when the investment process starts with a well-defined universe—typically, an index—and therefore, disclosure requirements about the investment universe may not apply to all types of products—e.g., products that engage in private market investments.
- Investment selection process: The Consultation Report states this includes types of ESG strategies used, as well as the use of indices and ESG scores or ratings, the extent of such use, and their methodologies, where applicable. We agree this type of information should be disclosed.
- Sustainability criteria used: Yes, we agree sustainability criteria should be disclosed. The general descriptions of criteria (e.g., "excludes coal") typically seen in current practice are insufficient. Disclosures about criteria must contain more detail to be useful.
- Extent of the portfolio's focus on sustainability: Yes, we generally agree this should be disclosed. However, it is unclear exactly what is meant by a *focus* on sustainability. At a minimum, if there is a portfolio-level allocation target to sustainable investments, this should be disclosed.

Question 8: Should the disclosures address how past proxy voting and shareholder engagement records align with the investment objectives or characteristics of a sustainability-related product?

CFA Institute agrees that periodic reports that show proxy voting and shareholder engagement records should be provided to clients. Additionally, CFA Institute generally supports the idea that asset managers should include in those reports a discussion of the extent to which the voting and engagement track record supports the product's objectives and targets—regardless of whether those are sustainably-related.

We acknowledge, however, that multiple factors may be at play when deciding how to vote a proxy. It would be unwise to assume that any product that has a sustainability-related investment objective or sustainability-related characteristics will always vote a proxy in a way that is aligned with the sustainability-related objectives or characteristics. *Sustainability-related* products have risk and return objectives that must be considered as well.

Question 9: Should securities regulators and/or policymakers, as applicable, also address the format and presentation of marketing materials and website disclosure for sustainability-related products?

CFA Institute believes that regulators and policymakers should introduce requirements that ensure the format and presentation of disclosures do not inhibit the communication of information to investors. These requirements should be no different for sustainability-related products than traditional products. Templates may be appropriate for certain information or for certain kinds of products. It is extremely difficult, however, to develop a single template that can cover the broad range of products offered in the marketplace. Forcing information into a particular format and presentation does not always result in clearer communication, and sometimes, it can actually hinder clear communication.

<u>Question 10</u>: Should securities regulators and/or policymakers, as applicable, encourage the use of specific metrics or key performance indicators to assess, measure and monitor the sustainability-related product's compliance with its investment objectives and/or characteristics? Should these metrics be subject to self-selection, or should there be a standardized approach?

Due to the lack of global standardization and availability of corporate ESG reporting, it is too early to mandate a standardized set of sustainability metrics at the portfolio-level. Metrics should be required at a portfolio-level only when the underlying data can support reliable reporting of such metrics. Before such standardized metrics or performance indicators are mandated, it is vital that regulators also develop a mechanism ensuring quantitative comparability for retail products. In absence of such a mechanism, sustainability metrics would not be of much use to investors.

<u>Question 11</u>: Should periodic reporting include both quantitative and qualitative information about whether a sustainability-related product is meeting its sustainability-related investment objectives and/or characteristics?

Yes, products that have sustainability-related investment objectives and/or target characteristics should provide periodic reports that evaluate the product's performance against those sustainability-related investment objectives and/or target characteristics.

<u>Question 12</u>: Do you agree that securities regulators and/or policymakers, as applicable, should encourage industry participants to coalesce around a set of consistent sustainability-related terms?

Yes, securities regulators and policymakers should encourage industry participants to coalesce around a set of consistent sustainability-related terms.

<u>Question 13</u>: Are there any sets of standardized sustainability-related terms being developed by international organisations that should be considered by securities regulators and/or policymakers, as applicable?

Over the past several years, CFA Institute has incorporated sustainability-related topics, terminology, and examples into its CFA Program. Additionally, CFA Institute is in the midst of a global rollout of the Certificate in ESG Investing. The glossary in the training manual for the Certificate in ESG Investing, in particular, provides a useful baseline of sustainability-related terminology. Because there has been a great deal of innovation in ESG/sustainability over the past five years, we have made meaningful updates each year to the terminology used in our program curricula, and we will continue to update and refine it going forward. Over time, we expect the pace of innovation to slow and terminology will become more stable and consistent.

CFA Institute would be pleased to work with securities regulators and policymakers, at the national or international level, to help customize terminology.

Question 14: Do you agree that securities regulators and/or policymakers, as applicable, should promote financial and investor education initiatives relating to sustainability, or, where applicable, enhance existing sustainability-related financial and investor education initiatives?

CFA Institute strongly believes that securities regulators and/or policymakers should promote financial and investor education initiatives relating to sustainability. Investors' focus on sustainability and ESG factors has risen significantly in the last few years. This is due to a few factors, including strong and prescriptive regulatory developments (both for asset owners and asset managers), an increased awareness of the potential impact to value of such factors on their investments, and a wide and growing array of financial and investment products that are marketed based on their green, ESG or sustainability credentials. These products offer a range of characteristics and functions which are not always clear or distinctive, and, given a lack of standardised definitions, the objectives and benefits of these products can be confusing not just to investors but to those within the financial industry. For this reason, regulators should promote these educational initiatives for investment professionals as well. Many financial advisers are not currently able to explain and discuss important sustainability concepts to their clients (e.g., sustainability integration). By strengthening awareness and education in this area, both end investors and intermediaries can benefit from a higher level of clarity and understanding in the products and the recommendations that are provided.

Financial education initiatives are important regardless of whether a market has regulations or voluntary standards (e.g., labels) in place to define what makes an investment or a product green or sustainable. As sustainable investing becomes more nuanced and complex, there are limitations to even the most comprehensive regulations, labels and certification frameworks. For those investors who have particular ESG needs, they should be equipped in a way that would allow them to ask the most appropriate questions and conduct the necessary due diligence where appropriate.

Question 15: Are there any specific sustainability-related financial and investor education initiatives not mentioned in this consultation report that could be considered by securities regulators and/or policymakers, as applicable?

The current and future training initiatives for retail investors cited in the paper are comprehensive and cover a broad spectrum of ESG and sustainability-related products and services. In addition to retail investor education, an area that IOSCO members may consider strengthening or mandating is the need for ongoing professional training for service providers and intermediaries providing regulated activities. This can be done by supporting or mandating a minimum number of hours of professional training about sustainability per annum as a condition for license renewal, or referencing certifications or credentials offered by universities and associations.

Another area that may be of potential interest is whether to provide centralised databases by stock exchanges or others mandated by securities regulators and/or policymakers that are free and accessible to all market participants. These databases may contain salient ESG data as reported by listed companies in a market, so immediately, investors can compare and contrast the key metrics (e.g., scope 1 greenhouse gas emissions, employee turnover, number of independent directors) of companies in a market, note which metrics a company is not reporting, and form their own conclusions. In many markets, such data is already made available as part of a listed company's ongoing listing obligations, so this will not add to their reporting burden. Nevertheless, the value arising from aggregating such market information and made available to all market participants will be significant in terms of improved access and time saved. Regulators may also wish to consider similar databases that cover investment products.

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Should you have any question on our comments or have a further discussion on the CFA Institute ESG Disclosure Standards, please do not hesitate to contact Josina Kamerling at Josina.Kamerling@cfainstitute.org, or Chris Fidler at Chris.Fidler@cfainstitute.org.

Sincerely,

/s/ Josina Kamerling

Josina Kamerling

Head, Regulatory Outreach, EMEA

CFA Institute

/s/ Chris Fidler

Chris Fidler

Senior Director, Global Industry Standards

CFA Institute