

22 January 2018

## **Re: Public Consultation on Institutional Investors and Asset Managers' Duties Regarding Sustainability**

We are writing in response to the European Commission's Consultation on Institutional Investors and asset managers' duties regarding sustainability. We provide our responses in written form here that match our responses through an online survey tool.

CFA Institute<sup>1</sup> appreciates the opportunity to offer comments to the European Commission's Consultation concerning how sustainability or ESG information should be included in the investment process. CFA Institute believes that material sustainability or ESG information has an important place in the analysis of financial professionals and we commend the EC for advancing the conversation around ESG integration.

CFA Institute represents the views of those investment professionals who are its members before standard setters, regulatory authorities, and legislative bodies worldwide about issues affecting the practice of financial analysis and investment management, education and licensing requirements for investment professionals, and on issues affecting the efficiency, integrity and accountability of global financial markets.

### **Questions and Answers**

#### I. General overview

##### **1) Do you think relevant investment entities should consider sustainability factors in their investment decision-making?**

Yes

No

No opinion

Please explain the reasons:

***CFA Institute is of the view that professional financial analysts should factor in anything they deem relevant and material, including ESG factors, in their professional judgement. The inclusion of these factors in financial analysis and the weight assigned***

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<sup>1</sup> CFA Institute is a global, not-for-profit professional association of more than 155,000 investment analysts, advisers, portfolio managers, and other investment professionals in 165 countries, of whom nearly 148,900 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 149 member societies in 73 countries and territories.

*to them in the investment process should be a matter for professional judgment and not something that is prescribed by laws or regulations?*

**2) What are the sustainability factors that the relevant investment entities should consider?**

Climate factors (these include climate mitigation factors as well as climate resilience factors)  
Other environmental factors  
Social factors  
Governance factors  
Others

*All of them. We feel that whatever is deemed relevant by the investment analyst should be considered. A recent survey of CFA Institute members indicates that most of our members incorporate ESG analysis into some aspect of the investment process.*

**3) Based on which criteria should the relevant investment entities consider sustainability factors in their investment decision making?**

Please explain:

*Investors should incorporate material ESG information into the investment process as they deem appropriate.*

**4) Which of the following entities should consider sustainability factors in their investment decision-making?**

Occupational pension providers  
Personal pension providers  
Life insurance providers  
Non-life insurance providers  
Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)  
Individual portfolio managers

*All of them. We believe that ESG factors should be incorporated into the investment process where they can have a material impact on company performance.*

II. Problem

**5) To your knowledge, what share of investment entities active in the EEA (European Economic Area) currently consider sustainability factors in their investment decisions?**

All or almost all  
More than two thirds

More than half  
More than a third  
None or almost none  
No opinion

*We have not seen this type of data published, but would be interested in the answer to this question as well. We have seen increased interest in ESG integration from around the world. In surveys of CFA Institute members globally in both 2015 and 2017, about ¾ of those surveyed said that they incorporate ESG information into their investment decision-making processes. This consistent support for incorporating ESG data into the investment process tells us that ESG integration is becoming a more fundamental part of asset management.*

Occupational pension providers  
Personal pension providers  
Life insurance providers  
Non-life insurance providers  
Collective investment funds  
(UCITS, AIF, EuVECA, EuSEF,  
ELTIF)  
Individual portfolio managers

**6) To your knowledge, which is the level of integration of sustainability factors by the different investment entities (active in the EEA)?**

High integration  
Medium integration  
Low integration  
No integration  
No opinion

Occupational pension providers  
Personal pension providers  
Life insurance providers  
Non-life insurance providers  
Collective investment funds  
(UCITS, AIF, EuVECA, EuSEF,  
ELTIF)  
Individual portfolio managers

*No comment*

**7) Which constraints prevent relevant investment entities from integrating sustainability factors or**

**facilitate their disregard. Please provide the importance of the different constraints that you consider relevant.**

Lack of expertise and experience

Lack of data/research

Lack of impact on asset performance  
Inadequate methodologies for the calculation of sustainability risks

Inadequate sustainable impact metrics

Excessive costs for the scale of your company  
No interest from financial intermediaries

No interest from beneficiaries/clients

European regulatory barriers  
National regulatory barriers  
Lack of fiscal incentives  
Lack of eligible entities  
Others

**8) How challenging is it for relevant investment entities to integrate the different sustainability factors?**

1 2 3 4 5

No  
opinion  
Climate factors (these include climate mitigation factors as well as climate resilience factors)  
Other Environment factors  
Social factors  
Governance factors  
Others

*Corporate Governance is very far along (1) in being incorporated into the investment process, globally. Progress on incorporation of environmental (E) and social (S) is steadily increasing in some markets but far behind governance at this point.*

III. Policy options

**9) In which area should relevant investment entities consider sustainability factors within their investment decision-making?**

Yes No

No

opinion

Governance

Investment

strategy

Asset allocation

Risk management  
Others

*All of them, with governance important in all instances, with E and S depending on the sector, industry*

**10) Within the area of governance, which arrangements would be most appropriate to enable the integration of sustainability factors?**

Specific sustainability investment Committee  
Specific sustainability member of the Board  
Sustainability performance as part of remuneration criteria

Integration of sustainability factors in the investment decision process

Integration of sustainability checks in the control process  
Periodic reporting to senior management/board  
Others

Please specify others:

**11) Should insurance and pension providers consult their beneficiaries on an annual/periodic basis on their preference as regards sustainability factors?**

Yes

No

No opinion

*CFA thinks that investment managers do not need permission to factor in any relevant and material considerations into the investment decision making process, including ESG factors. Investment managers can let their beneficiaries know that they incorporate ESG into the investment process, but should not need approval as to how they do so.*

**12) Within the portfolio's asset allocation, should relevant investment entities consider sustainability factors even if the consideration of these factors would lead to lower returns to beneficiaries/clients in the medium/short term?**

Yes

No

No opinion

*This is a false argument however, as there are ways to incorporate ESG into the investment process without limiting the investment universe. ESG is not negative screening. An ESG investment strategy coupled with engagement is one that many investors find useful.*

*Also, any screening factor be it ESG, leverage, regulatory risk, earnings growth, etc. will have periods of short-term underperformance and we would always tend to answer "Yes" for these questions.*

**13) Within the area of risk management, does the current set of corporate disclosures provide the relevant investment entities with adequate information to perform sustainability risk assessments in respect of investee companies?**

Yes

No

No opinion

*Much of the language is boilerplate. Decision useful information is typically inadequate.*

**14) Do the overall information or risk metrics available enable the relevant investment entities to adequately perform sustainability risk assessments?**

Yes

No

No opinion

*We think yes as there are many products and portfolio services already doing a capable job of assessing and factoring available ESG information into the investment process. It is clear however that the quality, detail and consistency of ESG information could improve. This information also includes non-company data provided by third parties that helps supplement any company data.*

**15) Do you think that uniform criteria to perform sustainability risk assessments should be developed at EU level?**

Yes

No

No opinion

*A global market led solution seems more appropriate, and investors should be allowed to develop and apply their approach to ESG assessments similar to other factors being assessed for investment decision making purposes.*

**16) In case material exposure to sustainability factors is identified, what are the most appropriate actions to be performed by the relevant investment entity?**

*To identify material sustainability risks and include an analysis of these in the investment process which would determine their decision to buy/sell/hold. This includes engaging companies on these issues.*

**17) Should relevant investment entities disclose how they consider sustainability factors within their investment decision-making?**

Yes

No

No opinion

*This would not include information about investment processes that would compromise an investment business. We are not talking about giving away secrets about an investment processes. We do not believe that such disclosures should be legislated, but should be a best practice.*

**If yes, what areas should the disclosure cover? Please make a choice and indicate the relevance of disclosure within the different areas (1 is minor relevance and 5 is high relevance):**

Governance

Investment strategy

Asset allocation

Risk management

Other

*Consider them all*

IV. Impacts for stakeholders

**18) Which stakeholder groups would incur costs and which would benefit from integrating sustainability factors within investment decision-making by relevant investment entities?**

Occupational pension providers

Personal pension providers

Life insurance providers

Non-life insurance providers

Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)

Individual portfolio managers

General public

Retail investors

Financial advisors

Service providers (index provider, research providers...)

Other stakeholders (please specify)

*The investment professions would incur the costs, as well as companies who would need to provide the information. However, all parties would theoretically benefit from focusing on a more limited number of material KPIs (say 10) instead of the hundreds that are now tracked. This can lead to better investment decisions by both companies and investors.*

*Other stakeholders could also benefit with increased investor focus on ESG issues. For example, the working conditions of employees in some industries could be positively impacted with more focus on ESG issues. This could be the case in a number of emerging markets, which could result in a better quality of life for these employees.*

## 2.2 Questions addressed to end-investors

### **1) Do you take into account sustainability factors when you choose your investment products or investment entity?**

Yes

No

If you don't consider sustainability factors, please explain why and what would change your mind?

Please explain the reasons:

*NA- CFA Institute is not an investor or asset manager.*

### **a) If you consider sustainability factors, indicate the importance of the following sustainability factors for your investment decision (1 is the smallest impact and 5 is the highest impact).**

Climate factors (these include climate mitigation factors as well as climate resilience factors)

Other environmental factors

Social factors

Governance factors

Others

*NA*

### **b) If you consider sustainability factors, is there sufficient information on the different sustainability factors provided by asset managers and institutional investors to help you take informed investment decisions?**

Climate factors (these include climate mitigation factors as well as climate resilience factors)

Other environmental factors

Social factors

Governance factors

Others

*NA*

## 2.3 Question specifically addressed to relevant investment entities

### **1) As a relevant investment entity do you consider sustainability factors?**

Yes

No

Please explain why:

*CFA Institute is not an investment entity - NA*

### **a) In which areas does your entity consider sustainability factors?**

Yes No



Governance  
Investment  
strategy  
Asset allocation  
Risk management  
Valuation  
Disclosure  
Other  
Please specify other:  
Please explain:

*NA*

**b) What kind of sustainability factors do you consider? (Please refer to the definitions provided in the Glossary).**

Climate factors (these include climate mitigation factors as well as climate resilience factors)  
Other Environment factors  
Social factors  
Governance factors  
Others  
Please specify others:  
Please explain:

*NA*

**c) In case you have products targeting sustainability factors what time horizon do they target?**

**(Several answers possible).**

Short term (up to 3 years)  
Medium term (4 - 9 years)  
Long term (> 10 years)  
Other  
Please explain other:

*NA*

**d) In your view, what is the relevant time frame within which risks and opportunities related to sustainability factors typically materialize?**

Short term (up to 3 years)  
Medium term (4 – 9 years)  
Long term (> 10 years)

Climate factors (these include climate mitigation factors as well as climate resilience factors)

Other environment factors

Social factors

Governance factors

Others

Please specify others:

*Governance factors should be monitored each year. E&S tend to be more long-term but it depends on the issue, company industry. I would tend to say medium term for these, but it will be a case by case basis.*

**e) Within your governance policy, which measures/arrangements do you have in place?**

Specific sustainability investment Committee

Specific sustainability member of the Board

Integration of sustainability factors in the investment decision process

Integration of sustainability checks in the control process

Periodic reporting to senior management/board

Others

Please specify others:

NA

**f) In integrating sustainability factors in your investment decisions, which elements do you consider?**

External sustainability ratings

Internal sustainability ratings

Sustainability benchmarks

Due diligence analysis

Others

Please specify others:

In case you perform a due diligence analyses which elements do you consider?

Governance arrangements

Commitment of management of the investment target on sustainability factors

Methodologies for the calculation of market and regulatory sustainability risks

Valuation

Quality and frequency of available information

Sustainability risk adjusted performance

Others

Please specify others:

- NA

**g) In your risk assessment how do you measure the impact of sustainability risks on your portfolio?**

Internal quantitative model

Third party quantitative model

Qualitative fundamental analysis

Others

Please specify others:

Please explain:

NA

**h) Do you disclose information on how you integrate sustainability factors in your investment decision making?**

Yes

No

Please explain:

If yes, where do you disclose such information?

Pre-contractual disclosure

Semi-annual/annual reports

Periodic reports

Website

Newsletters

Factsheets

Marketing materials

Others

Please specify others:

NA

**i) Do you disclose information on the outcome of sustainability assessments?**

Yes

No

Please explain:

If yes, where do you disclose such information?

Semi-annual/annual reports

Periodic reports

Website

Newsletters

Factsheets

Marketing materials

Others

Please specify others:

*NA*

**j) Do you take into account sustainability factors in your investment decisions due to related**

**national legal requirements or related soft law provisions?**

Yes

No

If yes, please specify the relevant provisions and describe the related costs (financial and non-financial)

that you incur as well as the method by which you implement these.

*NA*

**k) Do you currently incur the following costs and benefits due to the integration of sustainability factors?**

**POTENTIAL BENEFITS:**

Ability to attract investors with specific sustainability requirements

Improved financial performance

Reputational benefits/external communication

Internal communication/recruitment

Others

Please specify others:

*NA*

**Ability to attract investors with specific sustainability requirements** - please explain and, when

possible, quantify in EUR:

**Improved financial performance** - please explain and, when possible, quantify in EUR:

**Reputational benefits/external communication** - please explain and, when possible, quantify in EUR:

**Internal communication/recruitment** - please explain and, when possible, quantify in EUR:

**Others** - please explain and, when possible, quantify in EUR:

*NA*

**POTENTIAL COSTS:**

Decreased financial performance

Loss of specific financial opportunities (for instance non-sustainable products/projects)

Consultancy costs

Legal counsel costs

Compliance costs

Others

Please specify others:

**Decreased financial performance** - please explain and, when possible, quantify in EUR:

**Loss of specific financial opportunities** - please explain and, when possible, quantify in EUR:

**Consultancy costs** - please explain and, when possible, quantify in EUR:

**Legal counsel costs** - please explain and, when possible, quantify in EUR:

**Compliance costs** - please explain and, when possible, quantify in EUR:

**Others** - please explain and, when possible, quantify in EUR:

NA

**2) What would be the level of costs associated with the integration of sustainability factors in investment decision making in the different areas? Please tick the relevant box. (Costs as**

NA

**3) Please explain whether integration of sustainability factors in any of the above mentioned areas would lead to particularly significant (or potentially disproportionate) impacts in terms of costs or benefits incurred by stakeholders.**

**4) Do you engage with your clients/beneficiaries as regards their sustainability preference?**

Yes

No

NA

If so, could you estimate the average costs associated to that engagement in proportion to the assets under management?

< 0.5% of the AUM

0.51% to 1% of the AUM

1.01% to 3% of the AUM

3.01% to 5% of the AUM

> 5% of the AUM

No opinion

NA

**5) What could be the benefits associated with the integration of sustainability factors?  
Please, specify and quantify where possible and relevant.**

*Integrating sustainability factors into the investment process helps to give investors a more complete understanding of the companies in which they invest.*

**Concluding Remarks:**

We appreciate the opportunity to comment on the duties of institutional investors concerning sustainability. Do not hesitate to contact us if you have any further questions.

Yours faithfully,

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