



CFA Institute Launches Consultation: ESG Disclosure Standards for Investment Products

The CFA Institute, earlier this year, published a consultation paper on its forthcoming "Environmental, Social and Governance (ESG) Disclosure Standards for Investment Products" (the "**Standard**"). In response to the growing market concerns with respect to the inconsistency and variation in ESG-related terms and disclosures between investors and asset managers, the CFA Institute has developed proposals for a voluntary, global and disclosure-based standard that would allow investors to understand the features offered by a particular investment product and to make comparisons among products across markets. The below highlights certain key aspects of the consultation paper.

Purpose and Scope

The purpose of the Standard is to provide greater product transparency and comparability for investor by establishing a framework for asset managers to clearly and consistently communicate the ESG-related features of their investment products. The Standard will establish fundamental requirements, disclosure requirements for investment products with ESG-related features, procedures for independent examination of disclosures, and ESG-related features classifications by ESG-related needs.

Focus on Investment Product Disclosures and ESG-Related Features

Its disclosure-based approach will aim to describe individual investment products as they are by enabling investors to determine how well such investment products meet their ESG-related needs. The Standard will focus on investment product features identified, including ESG integration, ESG-related exclusions, best-in-class, ESG-related thematic focus, impact objective and proxy voting, engagement, and stewardship, on the grounds that features are the key way that investors distinguish among investment products.

Proposed Disclosure Requirements

The Standard will set out requirements for both “general” and “feature-specific” disclosures for eligible investment products. The general disclosure requirements will apply to all investment products with at least one ESG-related feature that use the Standard whereas feature-specific disclosure requirements will apply only to investment products that claim to have a particular feature.

i) General disclosure requirements include:

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| <ul style="list-style-type: none"> • A description of the investment product’s investment mandate, objective, or strategy; • Time horizon of the ESG investment analysis; • The investment universe (prior to any exclusions); • The investment product’s benchmark(s); • A description of any monitoring and review procedures to evaluate the investment product’s alignment with its stated investment objectives; | <ul style="list-style-type: none"> • The ESG-related or sustainable labels and standards with which the investment product claims compliance; • Whether the investment product has been independently examined; and • Material changes to the investment product’s ESG-related features and the effective date of the changes including, specifically, if the investment product has transitioned from an investment product without ESG-related features to an investment product with ESG-related features. |
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i) Feature-specific disclosure requirements include:

ESG Integration	
Definition	Explicitly considers ESG-related factors that are material to the risk and return of the investment, alongside traditional financial factors, when making investment decisions.
Types of issues to be addressed	<ul style="list-style-type: none"> • The specific methods by which material ESG-related factors are considered in asset allocation, security selection, portfolio construction, and risk management • How material ESG-related factors are distinguished from non-material ESG-related factors • The sources of ESG data, estimates, and analysis used in decision making • A description of the qualitative or quantitative attribution performance analysis, if any, for evaluating material ESG-related factors

ESG-Related Exclusions	
Definition	Excludes securities, issuers, or companies from the investment product based on certain ESG-related activities, business practices, or business segments.
Types of issues to be addressed	<ul style="list-style-type: none"> • A description of each ESG-related exclusion criteria • If the ESG-related exclusion criteria can be changed, a description of the process for doing so • A description of the asset manager’s investment universe prior to the application of exclusions, if applicable • A description of the asset manager’s assessment of the impact of the ESG-related exclusion criteria on the size of the investment universe • Differences, if any, between the investment product’s exclusions and the benchmark’s exclusions

Best-in-Class

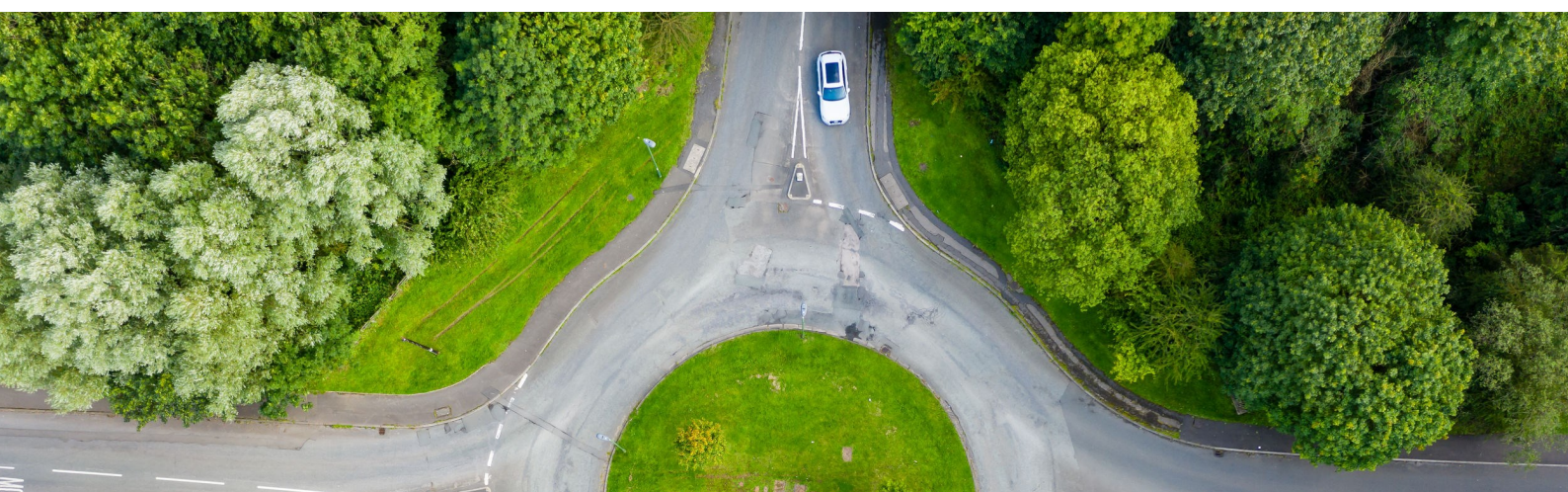
Definition	Aims to invest in companies and issuers that perform better than peers on one or more performance metrics related to ESG matters.
Types of issues to be addressed	<ul style="list-style-type: none"> • Description of the ESG performance metrics on which peer investments will be compared and whether the performance metrics are designed to evaluate specific ESG matters or to evaluate aggregate performance across a broad range of ESG matters • Where and how ESG performance metrics enter into asset allocation, security selection, and portfolio construction • If applicable, a description of the relative performance threshold and, if the threshold can be changed, a description of the process for doing so • If applicable, a description of how ESG scores or ratings are used to determine the relative weights of the holdings • The sources of ESG data, estimates, and analysis used to evaluate ESG performance • Methods used to monitor holdings' ongoing performance against the ESG metrics • Benchmarks for ESG performance metrics

ESG-Related Thematic Focus

Definition	Aims to invest in sectors, industries, or companies that are expected to benefit from long-term macro or structural ESG-related trends.
Types of issues to be addressed	<ul style="list-style-type: none"> • Description of the ESG-related thematic focus • Where and how the thematic focus is used in asset allocation, security selection, and portfolio construction

Impact Objective

Definition	Seeks to generate a positive, measurable social or environmental impact alongside a financial return.
Types of issues to be addressed	<ul style="list-style-type: none"> • Description of impact objectives, including the objectives' intentionality, measurability, and additionality • A priority ranking of all objectives, inclusive of both impact objectives and investment objectives • Methods used to assess, measure, and monitor performance against the stated impact objectives • Where and how the impact objectives are used in asset allocation, security selection, and portfolio construction • Methods by which the product intends to achieve the stated impact objectives



Proxy Voting, Engagement and Stewardship

Definition	Uses rights and position of ownership to influence issuers' or companies' activities or behaviors.
Types of issues to be addressed	<ul style="list-style-type: none"> • Policies and guidelines for proxy voting, engagement, and stewardship • The extent of reliance on proxy advisors • If applicable, how ESG factors that are material to the risk and return of the investment are considered, alongside traditional financial factors, when making proxy voting, engagement, and stewardship decisions • If applicable, how performance on ESG performance metrics is considered, alongside traditional financial factors, when making proxy voting, engagement, and stewardship decisions • If applicable, how impact objectives are considered, alongside traditional financial factors, when making proxy voting, engagement, and stewardship decisions • Specific goals for proxy voting, engagement, and stewardship, if any

Timeline

The CFA Institute expects to issue an Exposure Draft, the initial version of the Standard in May 2021.

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- Independent Assurance
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- Sustainability Target Setting
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- Carbon Emission Projection and Scenario Modelling
- ESG Information Disclosure
- Risk Management and Internal Control Review
- Risk consulting for Initial Public Offering ("IPO")
- Financial and Operational Due Diligence
- Corporate Governance Review
- IT Security and Advisory

For further information or enquiry regarding the consultation paper, please feel free to contact us.



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