Response Form
for the
Consultation Paper on the development of the CFA Institute ESG Disclosure Standards for Investment Products

CFA Institute is developing a voluntary, global industry standard, the CFA Institute ESG Disclosure Standards for Investment Products (the "Standard"), to establish disclosure requirements for investment products with ESG-related features. The purpose of the Standard is to provide greater transparency and comparability for investors by enabling asset managers to clearly communicate the ESG-related features of their investment products. The goal for this Consultation Paper is to elicit feedback on the proposed scope, structure, and design principles of the Standard. **All comments must be received by 19 October 2020 in order to be considered.**

Providing Feedback

Public commentary on this Consultation Paper will help shape an Exposure Draft, the initial version of the Standard, which is expected to be issued in May 2021. Comments should be provided in this response form. You may address as few or as many of the Consultation Paper's questions as you wish. Unless otherwise requested, all comments will be posted on the CFA Institute website.

<u>Guidelines for submission</u>

Comments are most useful when they:

- directly address a specific issue or question,
- provide a rationale and support for the opinions expressed, and
- suggest alternative solutions in the event of disagreement.

There is a section for general comments at the end of this response form.

Positive comments in support of a proposal are equally as helpful as those that provide constructive suggestions for improvement.

<u>Requirements for submission</u>

For comments to be considered, please adhere to the following requirements:

- Insert responses to numbered questions in the designated areas of the response form. Please do not remove tags of the type <QUESTION_XX>. Your response to each question must be framed by the two tags corresponding to the question. If you do not wish to respond to a given question, please do not delete it but simply leave the text "ENTER RESPONSE HERE" between the tags.
- Provide all comments in English.
- Assign a unique file name to your response form.
- Submit the response form as a Microsoft Word document.
- Submit the response form to standards@cfainstitute.org by 5:00 PM E.T. on 19 October 2020.

General Information (required)

Respondent: *(Please enter your full name if you are submitting as an individual or the name of the organization if you are submitting on behalf of an organization.)*	MSCI ESG RESEARCH LLC
Stakeholder Group: *(Please select the stakeholder group with which you most closely identify.)*	Service Provider
Region: *(If you are submitting as an individual, please select the region in which you live. If you are submitting on behalf of an organization and the organization has a significant presence in multiple regions, please select "Global". Otherwise, please select the region in which the organization has its main office.)*	Global
Country: *(If you are submitting as an individual, please enter the country in which you live. If you are submitting on behalf of an organization, please enter the country in which the organization has its main office.)*	United States of America
Confidentiality Preference: *(Please select your preference for whether your response is published on the CFA Institute website.)*	yes, my response may be published

Consultation Paper Questions

Market Needs

Question 1: Do you agree that a standard is needed to help investors better understand and compare investment products with ESG-related features?

<QUESTION_01>

MSCI supports regulatory efforts to increase corporate disclosure of ESG data, to provide transparency on fund ESG characteristics and to promote best practices for ESG providers. ESG ratings are intuitive, generally favored by consumers* and provide necessary context for understanding the sustainability characteristics of funds or portfolios. Hence, ESG ratings should be required as part of fund disclosures *alongside* key metrics as metrics alone and in the abstract are not useful, and ESG ratings are needed to help explain the information in an intuitive way with benchmarks used as comparisons. As part of that, we believe ESG ratings should be required to be provided by accredited providers that comply with best practices which provide a level of consistency across the market, including a focus on material risks by sector.

*Based on an independent survey commissioned by MSCI ESG Research in August 2020 of over 5,000 consumers located in Germany, France, Italy, Sweden and Belgium where 57% of respondents indicated that an overall sustainability score or rating alone (without additional metrics) was more useful in understanding the sustainability performance of a mutual fund than a set of metrics alone.

<QUESTION_01>

Terminology

Question 2: Are any of the defined terms ambiguous? If so, how could they be clarified?

<QUESTION_02>

"Investment Product" would benefit from further clarification as to what it entails; for example, does it apply to specific type of investment instruments and securities? What asset classes does it cover?

"Investor" is ambiguous, and the more detailed definition on page 27 of the consultation paper would benefit from being brought forward, as it distinguished between institutions and individuals. We propose differentiating upfront between Institutional Investors and Individual Investors. As some financial products are complex, they may only be understood by a suitably qualified person.

<QUESTION_02>

Purpose and Scope

Question 3: In addition to the examples listed in Table 1, which regulations and standards, either in existence or in development, should be considered during the development of the Standard to avoid duplication or conflict and to ensure alignment and referencing if and when applicable?

<QUESTION_03>

We note the importance of standards that are consistent and clearly presented to investors. Different and inconsistent integration, reporting and disclosure obligations across different regions and pieces of legislation, using varying definitions and types of disclosures, has the potential to cause damaging investor and consumer confusion. Overly prescriptive requirements will not allow appropriate flexibility for evolution in the ESG industry and consideration has to be given to ensure sustainability does not overly restrict investability.

It is therefore key that any standard is developed with the help of a diverse expert group and industry consultation process. A good example is the new ESG benchmarks disclosure metrics under the EU benchmark regulation (BMR), which were created with the benefit of a technical expert group through multiple industry consultations. The result is approximately 20 common and available metrics that can be calculated for large diversified equity and fixed income portfolios.

<QUESTION_03>

Question 4: Do you agree that a disclosure-based approach would be more helpful to achieve the Standard's goals of transparency and comparability than a prescriptive-based approach?

<QUESTION_04>

Yes, overly prescriptive requirements will not allow appropriate flexibility for evolution of the ESG industry and research. We also note that onerous and/or costly integration, reporting and disclosure obligations without proportionality and an allowance for staged or best efforts basis compliance, may dissuade ESG strategies and products.

<QUESTION_04>

Question 5: Do you agree that the Standard should focus only on product-level disclosures and not firm-level disclosures?

<QUESTION_05>

Yes. Firm-level disclosures for financial institutions are often not meaningful, nor are they relevant to investors, as many asset managers operate as boutique environments in which multiple ESG investment strategies exist. Using firm-level disclosures would not capture the differences between strategies and objectives that are in place within the same firm. Given that asset managers are increasingly responding to the needs of a diverse client base, it is highly likely that their different products will meet different ESG standards.

<QUESTION_05>

Question 6: Do you agree that an asset manager should be permitted to choose the investment products to which they apply the Standard rather than be required to apply the Standard to all their investment products with ESG-related features?

<QUESTION_06>

MSCI supports efforts to provide increased transparency around ESG disclosures. We also recognize the importance of not being overly prescriptive and of allowing for staged requirements over time. Given that, we agree with the level of flexibility being proposed. We also note that if the product is marketed by the manager as an ESG product, the strength of the ESG claim will be evident by the categorization(s) applied by the Standard.

<QUESTION_06>

Design Principles

Question 7: Do you agree with the design principles for definitions of ESG-related terms?

<QUESTION_07>

Yes, these definitions are aligned with the approach MSCI as a firm has already taken.

<QUESTION_07>

Question 8: Do you agree with the design principles for disclosure requirements?

<QUESTION_08>

We generally agree with the design principles, although on the point "*Disclosure requirements should allow asset managers the flexibility to make the required disclosure in the clearest possible manner given the nature of the product*" we would favor at least some closed-ended questions to facilitate comparability between two products with similar features.

<QUESTION_08>

Question 9: Should the Standard require that all disclosures be made in a single document? If disclosures were spread across multiple documents, would that pose a challenge for investors to understand and compare investment products?

<QUESTION_09>

ENTER RESPONSE HERE

<QUESTION_09>

Question 10: Do you agree with the design principle for independent examination?

<QUESTION_10>

An independent examination may help bring consistency to the process and application of the Standard, and may be helpful tor product providers.

<QUESTION_10>

Question 11: Should independent examination be required, or should it be recommended as best practice but ultimately left to the discretion of the asset manager?

<QUESTION_11>

MSCI supports efforts to provide increased transparency around ESG disclosures. We also recognize the importance of not being overly prescriptive and of allowing for staged requirements over time to allow for flexibility and minimizing costs.

<QUESTION_11>

Question 12: Should the independent examiner (i) examine the disclosures relative to only the design of the investment product, or (ii) examine the disclosures relative to both the design and implementation of the investment product?

<QUESTION_12>

ENTER RESPONSE HERE

<QUESTION_12>

Proposal for General Disclosure Requirements

Question 13: Do you agree with the scope of the general disclosure requirements? Are there topics that should be added, deleted, or modified?

<QUESTION_13>

We broadly agree with the scope of these requirements, and have not identified elements that should be added, deleted or modified. However, we point out that a mandate, objective, and strategy are three distinct concepts. An investment product may have more than one mandate or objective, while a strategy is how one achieves the mandate or objective.

<QUESTION_13>

Question 14: Should the disclosure requirements address an investment product's intention to align with policy goals, such as the UN Sustainable Development Goals (SDGs), and if so, should these requirements be part of general disclosure requirements or feature-specific disclosure requirements?

<QUESTION_14>

We propose this be added to the feature-specific disclosure requirements (thematic or impact categories) if relevant, as intention to align with policy goals will depend on the product's objective, as mentioned in question 10.

<QUESTION_14>

Question 15: Should the disclosure requirements include an explanation of whether, and if so how, an investment product considers principal adverse impacts on sustainability factors and where to find additional information, as required by Article 7 of Regulation EU 2019/2088 Sustainable Finance Disclosure Regulation?

<QUESTION_15>

It may be premature to require reporting of adverse impact along SFDR metrics. SFDR is still under development with many challenges and limitations highlighted by Financial market participants in the response to the Joint Consultation ESG Disclosures Draft regulatory technical standards with consultation close date of 1 September 2020. Nonetheless, it is meaningful to align reporting requirements for global investors along common definitions and at least some reporting metrics to ensure comparability.

<QUESTION_15>

Proposal for ESG-Related Features and Feature-Specific Disclosure Requirements

Question 16: Do you believe that "ESG Integration" is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_16>

Yes. This is broadly aligned with how MSCI defines ESG Integration (i.e. "incorporating ESG criteria to enhance long-term return and manage ESG financial risks and opportunities".)

<QUESTION_16>

Question 17: If an investment product had Feature (A), and only Feature (A), as defined above, would it be consistent with the CFA institute policy paper "Positions on Environmental, Social, and Governance Integration"? In other words, would it be clear that material ESG-related factors are considered alongside traditional financial factors solely for the purpose of seeking to improve risk-adjusted returns? If not, please suggest how that could be made clearer.

<QUESTION_17>

Yes, it is clear.

<QUESTION_17>

Question 18: Is Feature (A) clearly defined? If not, please explain how the definition could be made clearer or more precise.

<QUESTION_18>

We propose a stronger focus on how material issues are determined in the disclosure requirements, i.e. what principles the selection approach adheres to. MSCI's approach aims to be systematic, dynamic (annual) and quantitatively validated.

<QUESTION_18>

Question 19: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (A)? Are there issues that should be added, deleted, or modified?

<QUESTION_19>

We generally agree with the disclosure requirements specific to Feature (A).

We would suggest consideration of adding requirements that provide details if any changes to the methodology (ies) used have occurred over the reporting period.

In addition, materiality/economic relevance of indicators may be considered as part of the disclosures.

Regarding "sources of ESG data, estimates, and analysis used in decision making":

- Reliance on company disclosure alone may risk corporate 'greenwashing', as such investors should leverage and report on a range of sources to ensure holistic view on underlying investments ESG characteristics.
    - Company reported data should not be relied upon alone. Supplemental metrics such as widely used ESG scores and ratings are necessary to independently verify the data (e.g., regulatory fines, cases, infringements, etc.), otherwise the result is corporate greenwashing.
    - It would be useful to include alternate measurements where there may not be a local equivalence of a policy or certain social or environmental theme. There should also be a distinction between those metrics that may be sector specific and not applicable to all sectors.
- Widely used ESG scorings or ratings may be permitted to be included as part of the disclosures. MSCI has recently undertaken an independent survey of over 5,000 consumers/retail investors located in Germany, France, Italy, Sweden and Belgium, where 57% of respondents indicated that an overall sustainability score or rating was more useful in understanding the sustainability performance of a mutual fund than a set of metrics alone.
- Additionally, at the product level, the data may be compared with a benchmark so that relative comparisons against the broad market index can be made.

<QUESTION_19>

Question 20: Do you believe that "ESG-related Exclusions" is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_20>

Yes

<QUESTION_20>

Question 21: Are "negative screening" and "norms-based screening" similar enough, particularly in the types of issues to be addressed by disclosure requirements, that they can both be covered by Feature (B) ESG-Related Exclusions? If you prefer that they be two separate features, please explain the key differences in function, benefits, and disclosure requirements.

<QUESTION_21>

MSCI distinguishes between the two concepts in its product offering (MSCI ESG Business Involvement Screening Research vs. MSCI ESG Controversies/Global Norms) but agrees that both can be covered by an ESG-related exclusions feature as defined in the Standard.

<QUESTION_21>

Question 22: Is Feature (B) clearly defined? If not, please suggest how the definition could be made clearer or more precise.

<QUESTION_22>

We express some concerns around the statement "an investment product described as having *norms-based exclusions* may be equivalent to an investment product described as being *compliant with the UN Global Compact*" as following guidelines or principle does not mean compliance. While some products may be described as "compliant" with global standards, in our opinion it is not an appropriate terminology for the disclosures.

<QUESTION_22>

Question 23: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (B)? Are there issues that should be added, deleted, or modified?

<QUESTION_23>

We suggest removing "description of the asset manager's investment universe prior to the application of exclusions (e.g., large-capitalization domestic public equities), if applicable" as this is already part of the general requirements.

<QUESTION_23>

Question 24: Do you believe that "Best-in-Class" is a clear and appropriate name for this feature? If not, is "Positive ESG Performance Profile" a better name? If you dislike both of these names, please suggest an alternative and explain why it would be a better choice.

<QUESTION_24>

While “Best in class” is commonly used among ESG professionals, the term may be unclear to a less savvy investor, in particular an individual investor with less knowledge about investment products and investment strategies. “Best-in-class” would be more suited to describe the selection process to identify the top performers in ESG criteria. As such, we would propose changing the name to “ESG Leaders”, which makes it clear that the focus here is on companies that perform better than others on a relative basis on some specific ESG parameters. This is also in line with MSCI’s definition of ESG Leaders, i.e. companies that have the highest relative ESG-rated performance in each sector. Still, the relative (vs. absolute) aspect is the key feature that should be emphasized.

<QUESTION_24>

Question 25: Do you agree that Feature (C) is distinct enough, particularly in the types of issues to be addressed by disclosure requirements, that it should be separate from other features? If not, please suggest the feature with which it should be combined.

<QUESTION_25>

While MSCI uses a best-in-class approach for its main ESG Integration product (ESG Ratings), the definition provides ample details on what differentiates Feature (A) and Feature (C). We would recommend explicitly adding one of the main benefits of best-in-class, which is that it allows for exposure to all industries, which is not mentioned in the definition. It would also be useful to specify whether “best-in-class” means sector neutral or a focus on risk/materiality.

<QUESTION_25>

Question 26: Is Feature (C) clearly defined? If not, please explain how the definition could be made clearer or more precise.

<QUESTION_26>

It is unclear if the feature also includes short strategies.

In addition, when looking at Features A, B and C, and taking the example of “excluding all CCC-rated companies”, our assumption is that this would fit under Feature C, and the disambiguation in the description of this feature is helpful. Perhaps adding more details to features A and B would bring more clarity on this particular point.

<QUESTION_26>

Question 27: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (C)? Are there issues that should be added, deleted, or modified?

<QUESTION_27>

We agree broadly with the issues to be addressed by the disclosure requirements. Similar to previous features (A) and (B), we highlight the same comments and reservations about “Sources of ESG data, estimates, and analysis used in decision making” as expressed in Question 19.

While we commend the definition of specific performance metrics, there may be a risk of providing investors with too much data, creating complexity that may lead to potential investor confusion.

The lack of materiality /economic relevance may create emphasis around indicators that are not material or are less relevant for certain sectors. It is not clear what conclusions are expected to be drawn from a lack of disclosure by companies for issues that are not relevant to their sector, e.g., lack of commitments to forest preservation, which is not relevant for a software technology company.

As a result, we recommend that materiality/economic relevance based on exposure to each defined performance metric should be included as part of the disclosure requirements. In addition, we recommend that the issues for disclosure include the rationale for the metrics used in a best-in-class approach so that investors can judge whether they make sense.

Further, because a number of the metrics are highly technical and not intuitive, they may not be easily understood or interpreted unless read by a suitably qualified person. As a result, widely used ESG scorings or ratings should be permitted to be included as part of the disclosures. Additionally, the data should be compared with a benchmark so that relative comparisons against the broad market index can be made. MSCI has recently undertaken an independent survey of over 5,000 consumers/retail investors located in Germany, France, Italy, Sweden and Belgium, where 57% of respondents indicated that an overall sustainability score or rating alone (without additional metrics) was more useful in understanding the sustainability performance of a mutual fund than a set of metrics alone.

<QUESTION_27>

Question 28: Do you believe that "ESG-related Thematic Focus" is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_28>

Yes; the concept is broadly aligned with MSCI's definition of thematic investing, which is a top-down investment approach, designed to capitalize on opportunities created by macroeconomic, geopolitical and technological trends that are both structural and transformative in nature.

<QUESTION_28>

Question 29: Do you agree Feature (D) is distinct enough, particularly in the types of issues to be addressed by disclosure requirements, that it should be separate from other features? If not, please suggest the feature with which it should be combined.

<QUESTION_29>

Yes, Feature D is distinct enough.

<QUESTION_29>

Question 30: Is Feature (D) clearly defined? If not, please explain how the definition could be made clearer or more precise.

<QUESTION_30>

See question 29. Yes.

<QUESTION_30>

Question 31: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (D)? Are there issues that should be added, deleted, or modified?

<QUESTION_31>

The types of issues to be addressed by disclosure requirements listed under Feature (D) may require additional information, i.e. thresholds set, methodology and sources used.

Our proposal is to add “Sources of ESG data, estimates, and analysis used in decision making”, with the same comments and reservations expressed in Question 19. For products with a thematic focus, in our view risks around greenwashing are even more pronounced to the generally concentrated nature of the portfolio constituents’ business activities.

Importantly, we propose that the metrics can be applied across all asset classes, and that any metrics specific to individual securities (e.g., bonds) or non-corporate issuers (sovereigns) should be clearly defined.

<QUESTION_31>

Question 32: Do you believe that “Impact Objective” is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_32>

The definition of the feature states that it is aligned with a multitude of standards (“Alignments”) that use the terminology “Impact Investing”. The name of the Feature is not necessarily an issue, but the definition would benefit from even more clarity around the distinction between Objective vs Strategy, even though partially addressed through the “Notes”. In addition, “Strategy” is already part of the General Disclosure Requirements.

<QUESTION_32>

Question 33: Is Feature (E) clearly defined? If not, please explain how the definition could be made clearer or more precise.

<QUESTION_33>

Refer response to Question 32

<QUESTION_33>

Question 34: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (E)? Are there issues that should be added, deleted, or modified?

<QUESTION_34>

We propose to add "Sources of ESG data, estimates, and analysis used in decision making", with the same comments and reservations expressed in Question 19.

<QUESTION_34>

Question 35: Do you believe that "Proxy Voting, Engagement, and Stewardship" is a clear and appropriate name for this feature? If not, please suggest an alternative and explain why it would be a better choice.

<QUESTION_35>

Yes

<QUESTION_35>

Question 36: Do you agree that "Proxy Voting, Engagement, and Stewardship" should be a distinct feature? If not, would you prefer that the types of issues to be addressed by disclosure requirements be redistributed to other features or to general disclosures?

<QUESTION_36>

Yes

<QUESTION_36>

Question 37: Is Feature (F) clearly defined? If not, please explain how the definition could be made clearer or more precise.

<QUESTION_37>

Yes

<QUESTION_37>

Question 38: Do you agree with the issues to be addressed by the disclosure requirements specific to Feature (F)? Are there issues that should be added, deleted, or modified?

<QUESTION_38>

We propose to add "Sources of ESG data, estimates, and analysis used in decision making", with the same comments and reservations expressed in Question 19.

<QUESTION_38>

Question 39: Do the six features described fully cover the spectrum of ESG-related features currently offered in the marketplace?

<QUESTION_39>

We agree that the six features capture the most common approaches currently offered in the marketplace.

Some institutional investors focus solely on climate risks or opportunities. Climate may potentially be a sub-category of each feature.

<QUESTION_39>

Proposal for Classification of ESG-Related Features According to ESG-Related Needs

Question 40: Does this list of ESG-related needs represent the spectrum of investors' ESG-related needs?

<QUESTION_40>

Although Best in Class (or ESG Leaders as suggested by MSCI) is included in Features, this is not captured in the needs if an investor wants to invest in ESG leaders within different industries and sectors. Another need that is not captured is to invest in companies that are on an improvement trajectory or companies with positive ESG Momentum. This could potentially be linked with the ESG Integration (Feature A) as it can fit into the definition of managing ESG risks and capturing opportunities (companies with improving ESG profiles/ratings). With this in mind, we suggest adding two more needs to Table 3:

"*I want to invest in companies that are ESG leaders within their own industries and sectors"*

"I want to invest in companies that are improving on ESG performance and rating or companies that have positive ESG momentum"

<QUESTION_40>

Question 41: Are these five ESG-related needs clearly differentiated and mutually exclusive?

<QUESTION_41>

The ESG-related needs are clearly differentiated but are not necessarily mutually exclusive as investors may have multiple needs and motivations and in practice often combine these approaches in their strategies.

<QUESTION_41>

Question 42: Do you agree with the classification of ESG-related features according to ESG-related needs, as shown in Table 3? If not, how might it be improved?

<QUESTION_42>

We generally agree with the classification but note that for (F)(1): in our understanding feature (F) does not focus solely on what could be material for a company, in that sense this is inconsistent with Statement (1).

<QUESTION_42>

Users and Benefits

Question 43: Do you agree with the description of user benefits? Are there any benefits that should be added or deleted?

<QUESTION_43>

User benefits may also include academics and financial regulators who can benefit from a precisely defined categorization and transparency standard. In many academic studies, ESG funds are mischaracterized by not taking into account the features/intent of the fund, e.g. an ESG fund under ESG integration or best in class approach with holdings in fossil fuel stocks is not considered a 'true' ESG fund by many. The Standard will enable better understanding of specific features and intent of funds and thereby judged on that particular feature/intent. In addition, users of the standard can also include industry associations who can periodically review their own categorization against the CFA standard and may want to align for consistency of approach on a regional as well as global level.

<QUESTION_43>

Question 44: Do you agree with the terms used to define the users of the Standard? Are there any terms we should include, or avoid using?

<QUESTION_44>

As in question 43, users can be expanded to include some other stakeholders such as academics, financial regulators and industry associations.

<QUESTION_44>

General Comments: Please enter general comments below.

<GENERAL_COMMENTS>

We invite you to review our MSCI Principles of Sustainable Investing paper for more information on MSCI's views and recommendations on the core principles and best practices for ESG integration by investors globally: [THE MSCI PRNCIPLES OF SUSTAINABLE INVESTING]

<GENERAL_COMMENTS>