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

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?

Feature Name and Code	Impact Objective (E)
Function	Seeks to generate a positive, measurable social or environmental impact alongside a financial return. An *objective* is something that one's efforts or actions are intended to attain or accomplish. An *impact* is a change in outcomes. An *environmental or social impact objective* is the intention to attain a change in outcomes with respect to one or more environmental or social matters. *Measurable* means the impact objective is well defined and progress with respect to the stated impact objective can be measured.
Benefits	Investment products that have one or more positive, measurable environmental or social impact objectives allow investors to make an intentional, positive contribution to an environmental or social matter while also earning a financial return.
Alignments	The definition of this feature is intended to align with the GIIN[20] definition of "impact investing," the GSIA definition of "impact/community investing," the IIF definition of "impactful investments," the SFAMA/SSF definition of "impact investing," the IA fund-level component definition of "impact investment," the BSI definition of "impact investing," the ICI definition of "impact investing," and the IFC[21] definition of "impact investments."
Notes	The term "impact investing" was not used here because it refers to an investment strategy, whereas this paper is seeking to identify only investment product features. It is believed that the impact "objective" is the identifiable feature of an impact investing strategy that expresses an investment product's intent to contribute to a positive, measurable change in social or environmental outcomes. Objectives are not the only important component of impact investing strategies; other aspects are equally important. As stated earlier, the Standard does not intend to put forth best practices for how investment products should be designed and implemented.[22]
Examples	An example of an impact objective is one that aims to increase the availability of capital to underserved communities through direct loans to small businesses.

[20] Global Impact Investing Network (GIIN). 2020. "What is impact investing?" (https://thegiin.org/impact-investing/).
[21] International Finance Corporation. 2020. https://www.impactprinciples.org/.
[22] For a best-practice framework for impact investing, see the IFC's "Operating Principles for Impact Management."

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Feature Name and Code	Impact Objective (E)
Types of issues to be addressed by disclosure requirements	• 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

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

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?

Feature Name and Code	Proxy Voting, Engagement, and Stewardship (F)
Function	Uses rights and position of ownership to influence issuers' or companies' activities or behaviors. *Rights and position of ownership* are legal entitlements or situational circumstances giving one the power to act. *Influence* means to have an effect. *Activities or behaviors* are any decisions or actions undertaken by the issuer or company. *Proxy voting* refers to voting on management and/or shareholder resolutions. *Engagement* refers to one or more interactions, such as meetings or written dialogue, between the asset manager of the investment product and the management of the issuer or company. *Stewardship* is the oversight and management of an asset to maintain or enhance its value.
Benefits	Investment products that use rights and position of ownership to attempt to influence issuers' or companies' activities or behaviors related to ESG matters give investors the opportunity to exercise ownership rights and to potentially effect change with respect to ESG matters.
Alignments	The definition of this feature is intended to align with the PRI definition of "active ownership," the GSIA definition of "corporate engagement and stakeholder action," the IA fund-level component definition of "stewardship," the BSI definition of "active ownership," and the SFAMA/SSF definition of "stewardship (active ownership)."
Notes	Ownership rights differ depending on the asset class. An investment product need not have a specific objective to influence only certain ESG matters or to achieve particular outcomes in order to exercise rights and position of ownership. Rights and position of ownership can be exercised at different times and on different issues.

Feature Name and Code	**Proxy Voting, Engagement, and Stewardship (F)**
Examples	ESG-related proxy voting, engagement, and stewardship examples include, but are not limited to, proxy voting, engagement, collaborative engagement, and filing shareholder resolutions.
Types of issues to be addressed by disclosure requirements	• 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

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

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

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

Many investors' investment product needs are related to their future financial needs. These needs are generally stated in terms of risk tolerance, return objectives, time horizon, liquidity needs, tax concerns, and legal or regulatory requirements. Because the scope of the Standard is investment products, the Standard assumes that earning a financial return is a core need that exists when choosing any investment product.

Today, an increasing number of investors have ESG-related needs or preferences in addition to financial needs. Investors state these types of needs in a variety of ways. Sometimes investors do not explicitly state these types of needs but still consider them in their investment product selection decisions. In order to meet an investor's ESG-related needs, there must be a relatively efficient way for the investor to communicate them or for the investor's consultant or advisor to assess them.

We have identified five distinct ESG-related investor needs. These needs are not mutually exclusive, and a particular investor may have none, one, several, or all. In Table 2, ESG-related needs are intentionally phrased in "plain language" that can be easily understood by all investors. The hypothetical statements of needs in Table 2 aim to capture the essence of investors' ESG-related needs rather than the exact wording. The Standard intends to capture typical ESG-related needs; it is not possible to capture all ESG-related needs.

Table 2: Typical ESG-Related Needs

ESG-Related Need	Motivation
"I want to know that the ESG factors that are material to the risk and return of my investments are explicitly considered."	The investor's motivation is to benefit from the inclusion of a more comprehensive set of risk and return considerations than has traditionally been considered in investment products used to meet future financial needs.
"I don't want to violate my personal beliefs or the mission, principles, or beliefs of my organization."	The investor's motivation is to remain aligned with ethical principles, values, and/or religious beliefs.
"I want to make investments that I believe have relatively fewer negative effects, and more positive effects, on the people and things I care about and the world in which I live."	The investor's motivation is to influence the second-order consequences and externalities of the economic activities enabled through the investment. That is, the investor wants to direct capital to companies that are good stewards of natural resources and human capital, implement best-practice governance policies, and strive to avoid or limit negative consequences to the environment or society.
"I want to capitalize on investment opportunities related to long-term environmental or social trends."	The investor's motivation is to capture investment returns from sectors, industries, and companies expected to benefit from macro or structural trends related to ESG matters.
"I want to invest in specific solutions that intend to make a measurable contribution to a defined environmental or social need, problem, or goal."	The investor's motivation is to contribute, wholly or partially, to the realization of environmental and social outcomes that may not occur if the investor, and others, do not invest in efforts that intend to achieve those outcomes.

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

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

With the universe of ESG-related features and ESG-related needs established, we can now determine which ESG-related features typically meet which ESG-related needs. Investors, or their advisors and consultants, can then search for, compare, and evaluate investment products with the appropriate features.

Table 3 shows which ESG-related features investors may want to consider when they have a particular set of ESG-related needs. It is always the responsibility of investors to conduct appropriate due diligence to determine if a particular investment product meets their particular needs. Given the aforementioned caveats, it is hypothesized that an ESG-related feature commonly addresses an ESG-related need where a dot (•) appears at the intersection of a row and a column in the following table. Other features–needs relationships are also possible in addition to the ones shown in Table 3.

Table 3: Classification of ESG-Related Features According to ESG-Related Needs

ESG-Related Features / ESG-Related Needs	(A) ESG Integration	(B) ESG-Related Exclusions	(C) Best-in-Class	(D) ESG-Related Thematic Focus	(E) Impact Objective	(F) Proxy Voting, Engagement, and Stewardship
(1) "I want to know that the ESG factors that are material to the risk and return of my investments are explicitly considered."	•					•
(2) "I don't want to violate my personal beliefs or the mission, principles, or beliefs of my organization."		•				
(3) "I want to make investments that I believe have relatively fewer negative effects, and more positive effects, on the people and things I care about and the world in which I live."		•	•		•	•
(4) "I want to capitalize on investment opportunities related to long-term environmental or social trends."				•		
(5) "I want to invest in specific solutions that intend to make a measurable contribution to a defined environmental or social need, problem, or goal."					•	•

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?

Users and Benefits

The Standard is expected to have four primary types of users: asset managers, investors, consultants and advisors, and database providers. Asset managers can use the Standard for clearly communicating ESG-related product features. Investors and consultants/advisors can use the Standard to discuss, assess, and compare investment products with ESG-related features. Database providers can use the Standard to improve investment product search functions. The primary benefits, for all users, will be clarity and efficiency when presenting, identifying, comparing, or discussing investment products with ESG-related features.

Asset Managers

As stated earlier, asset managers and investors alike struggle to understand the inconsistent terminology associated with ESG-related features. This confusion interferes with the investor buying process; investors are less likely to purchase an investment product when its benefits are unclear to them. Asset managers can increase the transparency of their investment products by using the Standard to clearly communicate a product's ESG-related features and benefits. Increasing investors' understanding of investment product benefits will help investors more easily identify and select appropriate investment products.

Asset managers may also benefit from providing a uniform set of disclosures to consultants, advisors, and database providers, thereby reducing their disclosure burden while increasing the likelihood that their investment products are properly identified and differentiated during searches. Asset managers who use the Standard will not have to alter existing investment product names, thus preserving the identity and recognition of their products in the marketplace. In addition, the Standard's ESG-related needs and features are intended to be globally applicable, providing for uniformity in marketing and ease of portability across geographic borders. Moreover, complying with the Standard will not preclude adherence to other standards or labels.

Finally, because compliance with the Standard is voluntary, asset managers who choose to comply with the Standard demonstrate a commitment to best ethical practices.

Investors

The Standard is intended for use by all institutional and individual investors, as well as their consultants and advisors. Institutional investors include, but are not limited to, public and private pension funds and schemes, public entities, endowments, foundations, family offices, provident funds, insurers and reinsurers, and sovereign wealth funds. Individual investors include private wealth clients, high-net-worth clients, and retail investors.

Institutional Investors

The ambiguity and confusion that exist in the current ESG investment landscape can make it difficult—and sometimes impossible—for institutional investors to have constructive conversations about ESG-related needs with various stakeholders, such as trustees, boards, and plan sponsors, as well as their consultants. The Standard would provide institutional investors with a means to identify and articulate their ESG-related needs, in accordance with their investment policy, in a clear and unambiguous way.

Adhering to investment policy constraints is critical for those institutional investors who must avoid violating fiduciary duty or governing regulations. At the same time, many institutional investors find it important to evolve their investment policies to reflect changes in societal or stakeholder preferences or requirements. The Standard could be used to help craft additional language for investment policies to reflect ESG-related needs or to provide consultants with the guidelines needed to select investment products with appropriate ESG-related features.

Some institutional investors will require detailed information about how features are constructed. Disclosures can provide a moderate level of detail to use as a starting point for deeper evaluation of an investment product's ESG-related features or more-thorough investment product comparisons. Institutional investors would also benefit from independent examination and receiving assurance that the disclosures fairly describe the investment product.

Individual Investors

To make informed investment decisions, individual investors must understand what they are investing in. Clearly defined ESG-related features will help individual investors understand the benefits associated with investment products that have these features. Individual investors, particularly those who invest without consulting an advisor, can benefit from using the Standard's matrix to identify and express their ESG-related needs and to translate these needs into appropriate ESG-related features. Independent examination can also be helpful to individual investors, who may lack familiarity with the concepts and details in the disclosures, to provide assurance that an investment product has the features that it claims to have.

Consultants and Advisors

Investors often rely on investment consultants, advisors, and other entities who distribute, but do not manage, investment products. Investors hire these entities to advise on investment policy matters, provide research and investment recommendations, and engage in asset manager and investment product selection. The confusion surrounding ESG terminology, methods, and ESG-related features can lead to unproductive conversations between investors and their consultants or advisors, resulting in client dissatisfaction with the buying process and missed opportunities to meet clients' needs.

The Standard can serve as a useful communication tool to educate clients about ESG-related needs and ESG-related investment product features using a common language. Consultants and advisors can then communicate more readily with clients about their needs and map those needs to investment products with relevant features. Education is key for helping clients incorporate their ESG-related needs into their investment policies and understanding the investment products recommended to them.

The global relevance of the Standard and its application across asset classes allow investors to consider the full set of investment products. By defining ESG-related features in a universal way, the Standard could be used to help identify suitable investment products regardless of country or region of domicile. The Standard's disclosure requirements could also provide a way to readily identify investment products that have certain ESG-related features that conform to other regulations, standards, labels, and certifications.

The uniformity inherent in the Standard's definition of ESG-related features and its disclosure requirements can provide additional benefits to consultants and advisors in the form of enhanced efficiency gained through greater transparency and comparability in investment product searches and due diligence. This improved efficiency can potentially reduce the time spent on these functions while increasing the likelihood that a client is being presented with appropriate investment choices.

Database Providers

A fourth group of users that will likely benefit from the Standard is database providers that aggregate asset manager data for purposes of investment product search and manager due diligence. The utility of databases depends on their ability to provide standardized, searchable information that consultants and advisors can use to identify suitable investment products for their clients. Currently, asset managers use varying terms to label and describe their investment products with ESG-related features, and databases use varying sets of questions to attempt to provide for transparency and differentiation among these investment products.

Standardization of ESG-related features and disclosures will allow database providers to ask for a more consistent set of information to facilitate more-efficient searches and comparisons for consultants and advisors. A consistent set of information would also reduce disclosure burdens for asset managers, thereby increasing the likelihood that asset managers can provide databases with information that is more complete and more useful. Increasing efficiencies for consultants, advisors, and asset managers may increase a database's value to its users.

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

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?

Appendix A: CFA Institute ESG Working Group Members

CFA Institute would like to thank the members of the ESG Working Group for their invaluable contributions to this Consultation Paper.

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Roger Urwin, FSIP
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Willis Towers Watson
United Kingdom

Appendix B: Questions for Public Comment

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

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

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

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

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

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

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

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

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 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 17: If an investment product had Feature (A), and only Feature (A), as defined, 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 18: Is Feature (A) clearly defined? If not, please explain how the definition could be made clearer or more precise.

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

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

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

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

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

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

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

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

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

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?

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