CIFSC CANADIAN INVESTMENT FUNDS STANDARDS COMMITTEE

Responsible Investment Identification Framework | Response to Comments

The Canadian Investment Fund Standards Committee (CIFSC) would like to thank industry stakeholders for their valued input to the proposed Responsible Investment Identification Framework. Commenters included:

The Investment Funds Institute of Canada (IFIC)
IA Financial Group
Fidelity Investments Canada
1832 Asset Management / Scotia Global Asset Management

We respectfully respond to comments in the sections below. Note that in all instances below, "we" refers to the voting members of the Canadian Investment Funds Standards Committee.

Section	**Comment**	**Response**
Identification Framework	One commenter preferred that CIFSC refers to the CSA's staff notice first and foremost ahead of other documents like the CFA Standards. Another commenter requested that the framework depend solely on investment objective and investment strategy section of prospectus, as opposed to "other widely accepted frameworks" noting the fact that prospectuses are regulatory documents.	We agree that given the CSA's recent staff notice, it is logical to rely primarily on what is stated on fund prospectus investment objective and investment strategy language as a primary source of information. We also recognize that preparation and subsequent claims of compliance of the CFA Institute's Global ESG Disclosure Standards for Investment Products requires additional documentation and optional third-party auditing, which we believe will be a reliable source of *additional* information. It is understood that that adoption of this disclosure standard will likely take more time than updating prospectuses per CSA guidance. In regards to other frameworks, CIFSC would seek transparency into the nature of frameworks being referenced, and will note this in updated language.

Member ESG Scoring Methodology	Three commenters show concern regarding the inclusion of links to CIFSC member ESG-scoring methodology, citing a potential conflict of interest (in terms of member firms potentially being provided positive commercial gains), and have requested transparency on how the list of data providers were compiled.	We note that the section outlining ESG scores specifically references the fact that the providers are member firms that currently produce fund-level ESG scores. CIFSC welcomes methodology from any providers of ESG fund level ratings for Canadian-domiciled products and are open to including links to their methodology. At present, we believe the current list represents all major providers within this context. We also encourage providers to aide in the classification process to further improve quality and consistency of identification. As it relates to commercial benefit, each provider allows access to fund-level ESG scores without cost, which is of benefit to the investor. The providers do not believe that the inclusion of methodology links on the framework document and CIFSC website will provide material financial gains to any of the providers. Finally, we re-iterate the fact that the framework, as proposed, is disclosure-based. Given the nouveau nature of this area of investing, it is beneficial for investors to not only understand approaches disclosed, but also understand whether funds are on track to meet their responsible investment objectives, which can be researched freely via third party ratings methodologies. CIFSC is amenable to moving this section to the appendix, and to explicitly providing a statement outlining potential conflicts of interest.

Framework Naming	Once commenter requested the name of the framework be changed from “responsible” to “sustainable or ESG” – noting that funds excluded from identification might be viewed as “irresponsible.”	We acknowledge the comment and understand the context. We also remind commenters that in the context of this framework, the terms ESG/Sustainable/Responsible are fungible, and no normative context is being applied. We do not believe there is an ideal name for this framework, but note that the CFA Institute defines the term as follows: “Responsible investment is an umbrella term for the various ways in which investors can consider ESG within security section and portfolio construction.” (ref: “Certificate in ESG Investing: Official Training Manual," 3rd edition, 2021). The framework, as mentioned, has intentionally aligned with global standards and at present we believe the current name, as proposed, aligns well. CIFSC is amenable to adding wording to clarify the implications (or lack thereof) of the term ‘responsible.’
Fund Universe	One commenter suggests removing the “fund universe” section altogether because it introduces new terms not mentioned in the definition, and there is overlap between categories amongst terms. A secondary suggestion is to move this to the appendix.	We note that the fund universe portion of the feedback was included based on prior consultations and the intent to include examples of funds that might be included in each approach. We believe that the Fund Universe portion of each approach adds strength and additional insights to the framework, in that investors will benefit from understanding where additional terms will fit within the context of this identification framework. We note that the terms in the Fund Universe portion of each approach

		were taken directly from investment objectives of funds claiming to use Responsible Investment approaches, and realize that this might imply obligations to update regularly as new products and terms come to market. We remind commenters that the framework is not mutually exclusive. Where appropriate, a fund can be identified as using more than one approach.
ESG Integration and Evaluation	One commentor requested clarification around what We mean by "essential part" of the investment process, as it pertains to ESG integration, contrasting with the CSA's guidance of ESG factors being "one consideration" amongst others. Another commentor recommended that the definition be changed to, "the fund must use Environmental, Social and Governance (ESG) factors as a component of the evaluation method for security selection." Furthermore, it should be specified that this approach applies to all securities in a portfolio that can been evaluated based on ESG factors, with consideration for data limitations.	The intent of the framework is to identify funds that specifically have ESG-oriented investment objectives, as opposed to those that use ESG factors as a consideration, which we believe will quickly become the norm for most funds in Canada - defeating the very purpose of identifying this approach. We remain impartial to the type of ESG integration used by a fund, but rather focus on determining whether a fund uses ESG Integration based on the stated definition. To clarify, we will look specifically to the investment objectives section of the prospectus to identify funds that have distinct focus on ESG integration. We do not believe it appropriate to provide concessions in the realm of data limitations. We understand that smaller cap issuers may not have 3rd party ratings applied, however 3rd party ratings are the only points of reference for investors to review (for the most part free of charge) to conduct their own independent research on an issuer's ESG risk.

Impact Investing	One commentor requested clarification on the Impact category, questioning what would be considered a ‘positive impact.’ The same commentor expressed concerns in overlap with other CIFSC RI Categories.	We do not intend to determine what is deemed a positive impact, only that fund companies disclose in prospectus the types of impacts that they believe are positive. For informational purposes, the UN’s Sustainable Development Goals provide a framework to identify key areas of impact that we believe are widely accepted as positive. We remind commenters that the framework is not mutually exclusive. Where appropriate, a fund can be identified as using more than one approach.
ESG Thematic Investing	One commenter mentioned that ESG Thematic Investing funds can also practice ESG integration and suggested a modification on the definition of ESG Thematic Investing.	We remind commenters that the framework is not mutually exclusive. Where appropriate, a fund can be identified as using more than one approach.
ESG Thematic Investing	One commenter requested that the definition include the potential for more than one Theme to be identified.	We agree and will update wording accordingly.
ESG Thematic Investing	One commentor provided concerns around the definition of Thematic investing, specifically around the wording of having the theme be the primary evaluation method for security selection, recommending the term “primary” be replaced with “initial”. Commenter’s concern is that “primary” can infer that ESG factors take precedence over traditional financial factors and recommends that the term “primary” be replaced with “initial”. The same commentor suggested replacing “easily measurable” with “easily identifiable”, “clearly documented”, or something similar.	We believe that in the context of the definition, “primary” and “initial” can be used synonymously. Furthermore, CIFSC’s view is that if a fund is filtering out issuers due to a theme, then said theme is determining an investment universe and as such is indeed a primary evaluation method. We note that the definition does not point to the sacrifice of traditional factors, as the comment suggests. We believe there are thematic funds in place today that have themes which are measurable including Low Carbon Funds, Women in Leadership Funds, and Board Diversity Funds. Noting specifically

		the complexity of aggregating greenhouse gas emissions (including Scope 2 and 3), CIFSC is amenable to removing the word ‘easily’ from definition.
Impact Investing	A commenter recommends that the definition be tightened to include the notion of intentionality, which they believe is a defining feature of impact funds. Specifically, commenter recommends that the definition require that Impact Investing funds have an investment objective or investment strategy that articulates the intention to invest in securities that drive positive and measurable ESG outcomes.	We believe that the definition, as stated, addresses intentionality. “The fund invests in companies or projects that **intend** to have a measurable positive environmental and or social impact as well as the **intent** to generate a positive financial return.”
ESG Engagement and Stewardship Activities	One commenter recommends that this category include the requirement that a fund articulate engagement, proxy voting, or stewardship activities as an investment strategy and that the fund disclose this and the strategies used. Commenter notes that if this requirement is included, it will not be necessary for CIFSC to include the phrase, “Engagements and Stewardship Activities are considered at the fund level” given that the focus will be on disclosed strategies and in consideration of the fact that many fund managers engage with companies while representing assets across multiple funds. The same commenter also recommends that CIFSC broaden the definition noting that some engagement is also focused, or more focused, on reducing the negative impact of ESG factors on the company. The commenter recommends that the concept of engagement be expanded to include formal dialogue with company management rather than focusing on board.	Given the CSA’s staff notice on fund disclosure, we believe that the requirement for articulation and disclosure is inherent in the entire framework. As such we do not think it necessary to mention for this approach specifically. We are aware that fund managers engage with companies across multiple funds, however for the purposes of this framework (and as mentioned in the CSA staff notice), we believe this should be disclosed at the fund level. We do not identify a discernable difference between making a positive impact and reducing negative impact. We agree that engagement should include formal dialogue with company management and will updated this definition accordingly. We will clarify the term “training,” which refers to informing management and board of ESG issues.

	The commenter also seeks clarity on the use of the word “training” in definition.	
ESG Best-In-Class	One commenter notes that the naming of this approach may imply that funds identified as using this approach have reached some level of success or recognition. Commenter recommends that CIFSC change this category name to Positive Screening. Such a change would still align, and could even more closely align, with the CFA Disclosure Standards, given that the CFA Standards do identify Positive Screening as a particular and distinct ESG feature.	We note that the CSA staff notice utilizes the same term (“Best-in-Class”) in their recent guidance. It is also noted CFA Institute outrightly uses this term in their disclosure framework, and again within their curriculum (ref: “Certificate in ESG Investing: Official Training Manual," 3rd edition, 2021). We understand and appreciate the fact that this might be confusing for investors but must also consider the overarching goal of aligning terminology with local and global developments. We also note that positive screening is referred to in the first sentence of the definition, which according to the CFA Institute’s disclosure standards, is a sub-genre of best-in-class.

At this time, the comment period is closed. CIFSC members will discuss feedback and make modifications as appropriate prior to vote.

The CIFSC thanks all commenters for their thoughtful feedback, and we look forward to the implementation of this much-needed identification framework for the benefit of the Canadian investor.

Sincerely,

Ian Tam, CFA
Chair of the Canadian Investment Funds Standards Committee
Email: ian.tam@morningstar.com

CIFSC CANADIAN INVESTMENT FUNDS STANDARDS COMMITTEE
www.cifsc.org