CIFSC Responsible Investment Identification Framework

The CIFSC identifies funds that apply one or more responsible investing (RI) approaches. In recognition of the different interpretations and definitions of responsible investing, the CIFSC considers responsible investing to be an umbrella term that encompasses sustainable investing, ESG investing and any other strategy that would fall into one or more of the approaches listed in this document.

Scope and Intent

Given the rapidly developing nature of global ESG-related and sustainable investing frameworks, the CIFSC's intent is not to further complicate the global or Canadian landscape, but rather to develop a pragmatic identification standard that assists Canadian investors and their advisors, and allows for investors and fund manufacturers to align on common language and definitions. The CIFSC notes that this is an identification framework and not a labeling standard. The scope of this framework is limited to investment funds offered in Canada or listed on Canadian exchanges and is complementary to, and not in conflict with regulation and related guidance from the Canadian Securities Administrators and is aligned with global developments such as the CFA Institute's Global ESG Disclosure Standards for Investment Products. The framework is not meant to measure performance or magnitude, but rather to assist investors with CIFSC's reasonable determination of which responsible investment approaches are stated in regulatory documents from fund manufacturers. Though the CIFSC encourages transparency by fund manufacturers such as through the use of CFA Institute's Global ESG Disclosure Standards for Investment Products, a claim of compliance with these Standards for a given investment fund is not a requirement to be identified under the CIFSC's Responsible Investment Identification framework. The CIFSC reserves the right to iterate on the current framework as Canadian and global standards, regulation, and practices further develop, taking into consideration public comment prior to changes.

For additional clarity and to assist investors and fund manufacturers, Appendix A outlines the specific sections of the CFA Institute's Global ESG Disclosure Standards for Investment Products corresponding to each CIFSC RI Framework responsible approach, as well as to illustrative related terminology referenced in regulatory guidance under CSA staff notice 81-334.

Identification Framework

In broad terms, RI, ESG investing, or sustainable investing mean that some combination of environmental, social, governance, and sustainability factors are incorporated into the investment process. Environmental criteria measure the impact that a company has on the environment, or the impact that the environment has on the company. Social criteria measure how well a company treats its employees and customers, deals with human rights, avoids corruption and the impact a company has on the community where it operates or the impact the community has on the company. Governance criteria evaluate the leadership of a company, executive compensation, board oversight, board diversity, internal controls, and shareholder rights.

To be identified under the CIFSC Responsible Investment framework, a fund must have an investment mandate stated in the prospectus investment objectives relating to a responsible approach, and/or a separate document compliant with CFA Institute's *Global ESG Disclosure Standards for Investment Products* or other widely accepted disclosure standards. For non-prospectus funds, the CIFSC will consider other regulatory offering documents such as an offering memorandum. Additional information will be considered provided it is not contradictory to the publicly available information in regulatory or disclosure documents. In addition, the fund's stated responsible investing approach must meet the criteria for at least one of the RI approaches listed below.

Responsible Investment Approaches

Each Responsible Investment Approach in this document is broken down into two parts.

1. Definition: a description of the criteria for fund identification under the RI approach and some insight as to how the approach is typically implemented.

2. Fund Universe: some examples of the types of funds that might be identified under the approach, and some of the common terminology that these funds are using.

The Responsible Investment Approaches below are not meant to be mutually exclusive. Investment products can be identified as using more than one of the approaches.

ESG Integration and Evaluation

Definition

The fund uses Environmental, Social and Governance (ESG) criteria as an essential component of the evaluation method for security selection alongside traditional financial factors, such that all securities in a portfolio have been evaluated based on ESG factors and the ESG factors are significant and influential in the buying and selling of securities in the portfolio.

Fund Universe

Funds with the following strategies and terminology may be identified under this approach: socially responsible investing, ESG factor investing, ESG rules based, passive ESG index investing and others.

ESG Thematic Investing

Definition

In general, thematic funds identify disruptive themes and seek to invest in companies that stand to benefit from them through products and services. ESG Thematic funds have a specific focus on themes that fit into one or more of the Environmental, Social or Governance buckets but does not focus on all the elements of the ESG spectrum. For example, this includes funds with a particular environmental focus that evaluate companies based on environmental factors. The ESG Theme must be the primary evaluation method for security selection, such that at the overall portfolio level, the degree to which the theme is integrated is well documented and measurable.

Fund Universe

Funds with the following strategies and terminology may be identified under this approach: environment leaders, board diversity, cleantech, women in leadership, low carbon, and others.

ESG Exclusions

Definition

The fund has specific sectors, industries, materials, or companies that will be excluded from the investible universe based on ESG criteria or other specific ethical considerations and can also be referred to as norms-based screening. As examples, these funds cannot hold securities issued by companies or governments that receive revenue from the sale or production of excluded materials or operate in excluded sectors or industries. Exclusions based on legal requirements, or exclusions that would result naturally from the investment mandate will not be considered. Portfolio exclusions should be clearly stated in regulatory or disclosure documents.

Fund Universe

Funds with the following strategies and terminology may be identified under this approach: exclusions, negative screening, and others.

Impact Investing

Definition

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. Funds must have a stated impact measurement and management policy.

Fund Universe

Funds with the following strategies and terminology may be identified under this approach: impact, positive change, and others.

ESG Related Engagement and Stewardship Activities

Definition

The fund's managers use the fund's position of ownership to influence the company to make decisions that increase the company's positive impact on the ESG factors. This can include collaborative efforts with peers and/or informing the board and management of specific ESG issues. The goals of the engagements, including the ESG issues that are addressed and the process for monitoring the issues, should be documented, clear and should be reflected in formal dialogue with the company's board and management and/or by voting on shareholder proposals. Engagements and Stewardship Activities are considered at the fund level.

Fund Universe

Funds with the following strategies and terminology may be identified under this approach: funds with any of the approaches outlined in this document may be considered provided they meet the definition for ESG Related Engagement and Stewardship.

ESG Best in Class

Definition

Also referred to as positive screening, these funds generally invest in securities that meet specified criteria related to ESG factors. The criteria usually include thresholds related to ESG performance or scoring on ESG factors where only securities that meet the selected thresholds are considered for investment. Thresholds should be set such that the investable universe or portfolio is comprised of securities that perform at least better than average in the ESG factors.

Fund Universe

Funds with the following strategies and terminology may be identified under this approach: best in class, ESG leaders, sustainability leaders, ESG index tracking, environmental leaders and others.

Process for New Funds and Fund Reviews

New Funds

New funds will be reviewed monthly as they are launched as part of the CIFSC's new fund process. The CIFSC will consider regulatory documents, documents following widely accepted disclosure standards, and any other available information to determine if the fund fits into one or more of the Responsible Investment Approaches.

Funds requesting identification through widely accepted disclosure standards not mentioned in this document are encouraged to clarify what standard is being used.

Fund Reviews

The CIFSC will review any requests to have funds added or removed from the RI list on a monthly basis. As part of the review, the committee will ask for reasoning and evidence supporting the request. This can include any changes made to the Responsible Investment Approach(es) as detailed in regulatory documents or marketing materials and/or changes to the portfolio.

Appendix A: Approaches and References to CSA Guidance and the CFA Institute's Global ESG Disclosure Standards for Investment Products

CIFSC Responsible Investment Approach	CSA Staff Notice 81-334 - Illustrative Common ESG Strategies*	Key disclosure requirements in the Global ESG Disclosure Standards for Investment Products likely to be relevant to the CIFSC Responsible Investment Approach **:
ESG Integration and Evaluation	ESG integration	Systematic Consideration of Financially Material ESG Information in Investment Decisions – 2.A.7 Sources and Types of ESG Information – 2.A.6
ESG Thematic Investing	Thematic Investing	Portfolio Level ESG Characteristics – 2.A.11-13, Portfolio Level Allocation Targets - 2.A.14-15, ESG Screening Criteria – 2.A.9-10, ESG Investment Universe – 2.A.8, Sources and Types of ESG Information – 2.A.6.
ESG Exclusions	Negative screening (sometimes referred to as exclusionary screening or ESG exclusions)	ESG Screening Criteria – 2.A.9-10, ESG Investment Universe – 2.A.8, Sources and Types of ESG Information – 2.A.6.
Impact Investing	Impact Investing	Environmental and Social Impact Objectives – 2.A.19, Sources and Types of ESG Information – 2.A.6.
ESG Engagement and Stewardship Activities	• Stewardship (sometimes referred to as active ownership) • Proxy voting • Shareholder engagement	Stewardship Activities – 2.A.16-18, Sources and Types of ESG Information – 2.A.6.
ESG Best in Class	Best-in-class (sometimes referred to as positive screening or inclusionary screening)	ESG Screening Criteria – 2.A.9-10, Portfolio Level ESG Characteristics – 2.A.11-13, Portfolio Level Allocation Targets – 2.A.14-15, Sources and Types of ESG Information – 2.A.6.

*Note from CSA Staff Notice 81-334: "The above terms and definitions have been included for illustrative purposes only, and the Notice does not require or endorse the use of the above names and definitions for these ESG strategies, or the ESG strategies themselves. As further discussed under "Investment objectives and fund names", an ESG-Related Fund's description of these ESG strategies must be written using plain language so that investors can understand the fund's investment strategies."

** Disclosures made under these requirements of the Global ESG Disclosure Standards for Investment Products does not guarantee that a fund will be identified by the CIFSC under a particular approach. A claim of compliance with the Global ESG Disclosure Standards for Investment Products is not a requirement for a fund to be identified.

Appendix B: ESG and Sustainability Scores

The CIFSC re-iterates that the Responsible Investment Identification framework is disclosure-based. As such, the identification of responsible investments relies on what is stated by investment fund manufacturers on regulatory filings or other documents. Investors and their advisors are encouraged to conduct their own research on investment products to determine if they are suitable for their specific investment objectives and gain an understanding of whether a fund is meeting stated responsible investment objectives. Several CIFSC members currently provide sustainability scores for Canadian-domiciled investment products without cost to retail investors. Methodologies for these ratings are available here:

Fundata
Morningstar
MSCI
Refinitiv

The CIFSC acknowledges that the above providers are a subset of available ratings methodology, however we believe this list represents the majority of providers who actively cover Canadian-domiciled funds. Moreover, the CIFSC welcomes all ratings providers to submit links to their methodologies in addition to aiding the committee in identifying Canadian-domiciled responsible investing funds.

The CIFSC also recognizes the perceived conflict of interest in including links to 3rd party ratings methodologies. To this end, we remind stakeholders that fund-level ratings from the above providers are available free-of-charge to retail investors, to their benefit.