February 1st, 2024

RE: Proposed Changes to Responsible Investment identification framework

(Toronto) The Canadian Investment Funds Standards Committee seeks comments on proposed changes to the Responsible Investment identification framework.

Given the rapid pace of changes to responsible, sustainable, or more broadly ESG investment funds from a regulatory and identification standpoint, the CIFSC proposes to modify language of the existing definitions (launched in February 2022) to align closely with the terminology used in the global publication of *Definitions for Responsible Investment Approaches* (jointly written by the CFA Institute, Global Sustainable Investment Alliance, and the United Nations Principles of Responsible investing).

These changes are an extension of the framework's purpose to align with global standards while complimenting local regulatory requirements.

Attached is a redlined copy of the proposed changes to the framework wording, noting that the changes are largely to align terminology and will not affect any funds identified previously, nor do they change the general structure of the framework.

The committee welcomes comments directed to contacts@cifsc.org through to March 15th, 2024.

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CIFSC CANADIAN INVESTMENT FUNDS STANDARDS COMMITTEE

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:

- ~~that t~~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.
- The framework 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 and the CFA Institute's Definitions for Responsible Investment Approaches.
- ~~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.~~ this framework.
- The framework is it is not intended to assess the efficacy of the implementation of any approaches identified

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

On an ongoing basis, ~~T~~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 with the aim to improve risk-adjusted returns.

Note: By formal broader definition, ESG integration involves seeking out ESG information, assessing the materiality of that information, and integrating information judged to be material into investment analysis and decisions. Consideration of these ESG factors does not imply that they are given more or less consideration than other factors.

~~.~~Based on this definition, many Canadian investment funds outside the scope of the CIFSC RI Identification framework currently apply ESG integration. However, given the purposeful intent to align with CSA guidance (Ref: CSA Staff Notice 81-334), only funds that have an ESG-related investment objective will be considered for identification within this framework.

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.~~ Funds that use other approaches outlined in this document may be considered provided they consider ESG factors in the investment analysis and decision-making process with the aim to improve risk-adjusted returns.

ESG Thematic Investing

Definition

In general, thematic ~~funds~~ investing revolves around selecting assets that are expected to benefit from specific trends. Trends tend to be medium to long term in duration, regional or global in scope, and cross-cutting with respect to traditional industry or sector boundaries. Examples of ESG trends include climate change and the shift to a more circular economy. Fund managers using this approach should be able to clearly demonstrate how a significant portion of assets in the portfolio are connected to stated ESG trends. ~~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.

Disclosure of broad commitments to global agreements like the United Nations Sustainable Development Goals (which encompass 17 different goals) would not constitute an ESG Thematic Investing fund by CIFSC's definitions. ~~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~~low carbon,~~ and others.

ESG Exclusions

Definition

~~The fund~~Investment funds that use ESG exclusions have ~~has~~ specific sectors, industries, materials, geographic regions, or companies that ~~will be excluded from the investible~~are not permitted in the portfolio ~~universe~~ based on clearly defined ESG criteria which can be qualitative or quantitative in nature, and disclosed clearly in regulatory documents. ~~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.~~ Exclusions based on legal requirements, or exclusions that would result naturally from the investment mandate will not be considered. Screening rules should not be applied to the aggregate portfolio but rather at the individual security level (for example, a screen using governance scores would stipulate the necessary governance score of each investment, not the average governance of the investments in a portfolio).

Fund Universe

Funds with the following strategies and terminology may be identified under this approach: exclusions, negative screening, norms-based 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. Impact investing requires a "theory of change"—that is, a credible explanation of the investor's contributory and/or catalytic role, as distinct from the investee's impact. Allocating capital to investees that have a net positive impact is not impact investing unless there is a credible expectation that the investor will play a contributory or catalytic role in generating an improvement over the status quo.

Fund Universe

Funds with the following strategies and terminology may be identified under this approach: impact, positive change, and others. Additionally, funds that invest primarily in green bonds or sustainability-linked bonds with a stated impact objective will generally be considered impact funds given the nature of these assets~~.~~

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ESG Related Engagement and Stewardship Activities

Definition

Broadly speaking, stewardship is the use of investor rights and influence to protect and enhance overall long-term value for clients and beneficiaries, including the common economic, social, and environmental assets on which their interests depend. In the context of CIFSC's definition for investment funds, those that conduct ESG-related Engagement and Stewardship activities ~~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.~~ Per guidance form CSA Staff Notic 81-334, these activities must be disclosed at the fund level as opposed to at the firm 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 desirable quantitative or qualitative ESG-related criteria ~~related to ESG factors~~ that determine what holdings are permitted. ~~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.~~ A fund should not be characterized as best-in-class unless its threshold for inclusion requires at least better-than-median rank or better-than-average performance in the industry, sector, or other appropriate peer group.~~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.~~

We note explicitly that the term "best-in-class" refers to the investment process defined above and not to investment funds' ability to meet their investment objectives or anything to do with their performance relative to peers.

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.

The Committee notes that fund of fund products do not automatically inherit the approaches inherent in component funds. Instead, the Committee seeks parent fund-level disclosures outlining the Responsible Investment Approach(es) used, specifically in the investment objectives and investment strategy portions of a prospectus or equivalent regulatory document.~~.~~

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 publicly available 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
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.