

**ICGN**International Corporate Governance Network  
*Inspiring good governance & stewardship*

CFA Institute  
915 East High Street  
Charlottesville, VA  
22902  
USA

Submitted via email: [standards@cfainstitute.org](mailto:standards@cfainstitute.org)

19 October 2020

**Subject: ICGN response on CFA Institute consultation paper ESG Disclosure Standards for Investment Products**

Dear Sir or Madam,

ICGN writes in response to your consultation paper on ESG (environmental, social, governance) disclosure standards for investment products of 19 August 2020 ('the Consultation'). ICGN appreciates this initiative. A distinct advantage lies in the fact that the Consultation reinforces the awareness of the global disparities in the state-of-play regarding ESG standards.

In this response, ICGN would like to make some general comments and specifically react to the questions relating to shareholder responsibilities (titled "Proxy Voting, Engagement and Stewardship").

**ICGN**

By way of background, the International Corporate Governance Network (ICGN) is led by investors responsible for assets under management in excess of US\$54 trillion. ICGN is a leading authority on global standards of corporate governance and investor stewardship. Our membership is based in more than 45 countries, including a large membership of US based investors, ERISA-covered funds, companies, advisors and stakeholders.

ICGN's mission is to promote high standards of professionalism in governance for investors and companies alike in their mutual pursuit of long-term value creation contributing to sustainable economies world-wide. ICGN offers an important investor perspective on corporate governance policies and guidance, to help inform public policy development and the encouragement of good practices by capital market participants. Our policy positions are guided by the ICGN Global Governance Principles (GGP)<sup>1</sup> and the ICGN Global Stewardship Principles (GSP)<sup>2</sup>, both of which have been developed in consultation with ICGN members and as part of a wider peer review. ICGN is also engaged in the debate about ESG standards, having co-written a 2018 discussion paper titled "The Investor Agenda for Corporate ESG Reporting", where CFA Institute served as a contributor.<sup>3</sup> More information on ICGN may be reviewed on our website: [www.icgn.org](http://www.icgn.org).

---

<sup>1</sup> ICGN Global Governance Principles, 2017:

[http://icgn.flpbks.com/icgn\\_global\\_governance\\_principles/](http://icgn.flpbks.com/icgn_global_governance_principles/)

<sup>2</sup> ICGN Global Stewardship Principles, 2016: <http://icgn.flpbks.com/icgn-global-stewardship-principles/#p=1>

<sup>3</sup> Kris Douma, (Principles for Responsible Investment) and George Dallas (International Corporate Governance Network), "The Investor Agenda for Corporate ESG Reporting", October 2018 : <https://www.icgn.org/sites/default/files/ESG%20Reporting%20Discussion%20Paper%20FINAL.pdf>

## General comments

In spite of, or perhaps reflecting, its growing usage, the term “ESG” may mean different things to different people, particularly in the context of institutional investment. There can be scope for confusion, which can hopefully find clarification through agreed definitions and standards. This pertains to a range of issues, including the ESG data standards themselves, reporting frameworks, and the labelling of investment products that have ESG-related features in some shape or form.

Developing an agreed disclosure standard for investor products is an ambitious project. Done well, it has potential to add value to institutional investors and their customers or beneficiaries. However, given the multitude of codes and standards relating to ESG data and standards – and important initiatives underway to develop commonly agreed standards—it is important that CFA Institute ensures that this disclosure standards project will be positioned to be compatible with existing ESG standardisation initiatives and their future outcomes. Ultimately, cross-links with other regulations, standards and codes should be clearly mentioned, and overlap or contradictions should be avoided. Otherwise there is the potential for this project to add to the current confusion rather than be part of the solution.

A great challenge relating to ESG is semantic in nature. Part of this reflects that “ESG” itself is in many ways an abstract, if not unnatural, amalgamation of three different concepts bundled together in a way that may be a convenient, but also potentially confusing or misleading, shorthand. For some, ESG may mean more “E&S” and for others it might mean more “G”. So, while it is worthy, and of potential benefit for investors to agree common standards related to ESG investing, these broader semantic challenges do not appear to be addressed by the Consultation, and will remain potential points of confusion. Among other reasons this is why the CFI Institute is wise to begin with consideration of disclosure standards than with anything more prescriptive.

We appreciate that the global ambit of the consultation might be an inducement for increased global convergence, which is much needed indeed. We believe that investors will support these proposed disclosure standards if they are seen to add value and allow for comparability and a level playing field with regard to the market for ESG investment products. Otherwise investors may not be inclined to invest in the process of making new disclosures and submitting to independent examination.

## Consultation questions

### Question 3

We will focus on answering the Consultation’s specific stewardship-related questions 35-38, but we would like to address question 3 as well, with regard to regulations and standards that the disclosure standard should consider. We take the liberty of suggesting that ICGN’s Global Stewardship Principles are missing from your table on Codes and Principles of Investing. ICGN first published its statement on investor responsibilities in 2003, and the current GSP are recognised by institutional investors and regulators internationally as a respected global benchmark for the definition and practice of investor stewardship. At present, 50 of ICGN’s investor members, with assets under management in excess of US\$17

trillion, endorse the ICGN Stewardship Principles.<sup>4</sup> We believe that this has relevance to support our comments to questions 35-38.

### Stewardship Questions 35-38

*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.*

We believe this proposed name is potentially confusing. It muddles three related, but distinct concepts and how they relate with one another. We would suggest to simply name this feature ‘Stewardship’ because we believe that proxy voting and engagement are part of stewardship in a broader context—and it would be misleading to suggest that stewardship itself is somehow separate from those activities.

In general terms stewardship can be defined as the responsible management of something entrusted to one’s care. In an investment context this suggests that stewardship itself is fundamentally how investors express their fiduciary duty of care on the part of those agents entrusted with management responsibility to act on behalf of the end beneficiaries-- who are often long-term savers or members of pension funds. In this context, proxy voting and engagement are the key tools of stewardship.<sup>5</sup> ICGN’s Global Stewardship Principles clearly state that investors should promote the long-term performance and sustainable success of companies and should integrate material ESG factors in investment decision-making and stewardship activities.<sup>6</sup>

Furthermore, we wish to point out that proxy voting and engagement are not aspects which are exclusive to the so-called ‘ESG’ remit. These functions are inherent in owning a share, regardless of whether an ESG label is applied to the fund or not. These stewardship functions should not be considered separately from the investment strategies you identify (integration, exclusions, etc.), but rather as components of those investment approaches as well. This is a potential conceptual flaw in your disclosure model.

*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?*

ICGN believes stewardship enhances overall financial market stability and economic growth, and, by focusing on long-term value creation, stewardship is directly linked to sustainable benefits for the economy, environment, and society. So it certainly warrants consideration in your disclosure initiative. However, linked to our response to question 35 it can be problematic if “Proxy Voting, Engagement and Stewardship” are potentially interpreted as distinct from the other investment strategies you focus on. In our view these stewardship factors should be imbedded in these investment strategies, not positioned as “optional

<sup>4</sup> ICGN Global Stewardship Principles & Endorsers : <https://www.icgn.org/policy/icgn-global-stewardship-principles-endorsers>

<sup>5</sup> See ICGN Guidance on Investor Fiduciary Duties (2018): [http://icgn.flpbks.com/icgn-fiduciary\\_duties/](http://icgn.flpbks.com/icgn-fiduciary_duties/)

<sup>6</sup> ICGN Global Stewardship Principles (2020): [https://www.icgn.org/sites/default/files/ICGN%20Global%20Stewardship%20Principles%202020\\_0.pdf](https://www.icgn.org/sites/default/files/ICGN%20Global%20Stewardship%20Principles%202020_0.pdf)

extras". Defining them in a stand-alone classification runs the risk that stewardship practices may not be perceived as relevant for the ESG integration, exclusion, best-in-class, thematic and impact investment approaches. The CFA Institute should seek to guard against that potential perception.

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

The definition should be more precise and clearly state that stewardship activities, which includes voting and engagement (including bondholder engagement), refer to all asset classes, including fixed income.

*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?*

Despite the disclosure requirements being appropriate, the requirements could more explicit in indicating that it would apply to all asset classes. For example, from Feature (F) it seems that proxy voting is only for equities, but fixed income investors can face votes as well. Moreover, overall stewardship and engagement is applicable across asset classes. Historically, engagement has been associated with shareholding, but engagement is a powerful tool for investors on the bondholder side as well and is still under-utilised, under-reported and marginally disclosed.<sup>7</sup>

In addition, reporting is increasingly becoming a challenge for asset managers, and wherever possible CFA Institute should align and adopt already globally accepted standards and practices that managers are reporting on at present, instead of creating new reporting disclosures.

We hope these comments are useful in your deliberations. If you would like to follow up with us with questions or comments, please contact our Policy Director George Dallas: [george.dallas@icgn.org](mailto:george.dallas@icgn.org).

Yours sincerely,



Kerrie Waring

Chief Executive Officer

Copies:

Niels Lemmers, ICGN Shareholder Responsibilities Committee: [nlemmers@veb.net](mailto:nlemmers@veb.net)

Robert Lewenson, ICGN Board member and Shareholder Responsibilities Committee: [rlewenson@oldmutualinvest.com](mailto:rlewenson@oldmutualinvest.com)

Danielle Melis, Co-Chair: ICGN Shareholder Responsibilities Committee: [danielleam.melis@gmail.com](mailto:danielleam.melis@gmail.com)

Alison Schneider, Co-Chair: ICGN Shareholder Responsibilities Committee: [alison.schneider@aimco.ca](mailto:alison.schneider@aimco.ca)

---

<sup>7</sup> ICGN Viewpoint, "What is the role of the creditor in corporate governance and stewardship?" (September 2019): <https://www.icgn.org/what-role-creditor-corporate-governance-and-investor-stewardship>