GLOBAL ESG DISCLOSURE STANDARDS FOR INVESTMENT PRODUCTS AND SFC HONG KONG 29 JUNE 2021 CIRCULAR COMPARISON

During the development of the Global ESG Disclosure Standards for Investment Products (the "Standards"), CFA Institute staff compared the provisions in the Standards with the requirements in "Circular to management companies of SFC authorized unit trusts and mutual funds—ESG funds" issued by the Securities and Futures Commission in Hong Kong on 29 June 2021 (the "Circular"). CFA Institute has chosen to provide this comparison solely as a resource to describe the similarities and differences between the Standards and the Circular. It is not intended to be used for any other purpose.

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Introduction

The provisions in the Standards are based on proposals developed by the CFA Institute ESG Technical Committee and ESG Working Group as well as public comments submitted in response to the Consultation Paper for the Development of the ESG Disclosure Standards for Investment Products, issued in August 2020, and the Exposure Draft of the ESG Disclosure Standards for Investment Products, issued in May 2021. The Circular's requirements were carefully considered during the development of the Standards, but the inclusion or exclusion of a requirement in the Circular did not influence the decision to include or exclude a similar requirement in the Standards. The Standards express an independent view of the investment product ESG disclosures that investment managers should provide to investors.

The Standards were designed to avoid conflicting with regulatory requirements or disclosures. Guidance for Provision 1.A.1 states that "if a disclosure required by the ESG Disclosure Standards is prohibited by law or regulation, an investment manager can still claim compliance with the ESG Disclosure Standards. In such instances, Provision 2.A.2 requires that the investment manager include a description of the prohibited disclosure requirement in the ESG Disclosure Statement along with an explanation of why the required disclosure cannot be included."

This comparison explains similarities and differences in the information required to be disclosed under the Circular versus the Standards. It was created specifically to evaluate how certain of the Circular's requirements are addressed in the Standards; it is not intended to map the Standard's requirements to the Circular's requirements. This comparison does not provide a full summary of the Circular; readers are encouraged to read the Circular in its entirety to obtain a complete understanding of the disclosures required by the Circular.

It is no trivial task to define and agree upon the information that should be disclosed about an investment product's consideration of ESG issues in its objectives, investment process, and stewardship activities. Intended users of the Standards will have differing views on what information is important and how to construct disclosure requirements. It is impossible to fully reconcile these differences of opinion, but it is possible to achieve a general consensus on the information that is needed by most investors most of the time.

Disclosures Required by the Circular and Not Required by the Standards

The Standards require nearly all of the offering document and website disclosures required by the Circular. In some cases, however, a certain part of a requirement in the Circular may not be fully addressed in the Standards. In other cases, a requirement in the Circular may not be required by the Standards. The following list highlights where there are such differences:

- Requirement 14(b)(ii) requires "a summary of the process of consideration of ESG criteria," which may include "sequencing relative to the investment strategies," among other considerations. The Standards do not require a step-by-step narrative of the investment process. They do require, however, descriptions of how and where ESG approaches and criteria are used within the investment process.
- Requirement 14(f)(i) requires "a description of risks or limitations associated with the fund's ESG focus and the associated investment strategies," whereas the Standards only require disclosure of the risks and limitations of the ESG information used by an investment product. The Standards are narrow on this point of disclosure to avoid duplication with existing requirements that broadly require the disclosure of an investment product's risks.
- Requirement 15(a) requires "a description of how the ESG focus is measured and monitored throughout the lifecycle of the ESG fund and the related internal or external control mechanisms." The Standards require disclosure of the key elements used to measure and attain an investment product's ESG focus, including environmental and social objectives,

ESG screening and portfolio-level criteria, impact performance indicators, ratings, indexes used for tracking and benchmarking, and third-party certificates and labels. The Standards do not require, however, a description of internal or external control mechanisms.

- Requirement 15(c) requires "a description of due diligence carried out in respect of the ESG- related attributes of the fund's underlying assets." The Standards do not specifically require this disclosure, but they do require disclosure of the risks and limitations of the ESG information used in an investment product (and how those risks and limitations are managed), which may include due diligence on the ESG information used to select the fund's assets.
- Section G of the Circular contains requirements for periodic assessment and reporting. The Standards do not contain requirements for periodic assessment and reporting. Section I of the Circular contains requirements for ongoing monitoring to ensure continued compliance with the ESG focus and the requirements in the Circular. The Standards do not contain these requirements for ongoing monitoring.

Disclosures Required by the Standards and Not Required by the Circular

Readers may be interested in which of the Standard's provisions require disclosure of information that is not required by the Circular. Readers should note that disclosures required by the Standards but not required by the Circular may still be required by other laws or regulations.

The following Standards provisions require disclosures that the Circular may not require:

- 2.A.1.e (a description of any changes made during the period covered by the ESG DISCLOSURE STATEMENT that are relevant to the applicable disclosures REQUIRED by the Global ESG Disclosure Standards for Investment Products, along with the effective dates of those changes)
- 2.A.1.f (a description of any changes made to the ESG DISCLOSURE STATEMENT within the past year to correct a significant error)
- 2.A.7.a (how financially material ESG information is typically identified)
- 2.A.7.c (exceptions in which financially material ESG information is not considered in investment decisions, if any)
- 2.A.8.b (how an INVESTOR can obtain information about the index construction methodology)
- 2.A.11.e (the risks that could significantly hinder the attainment of the target portfolio-level ESG characteristic, should they occur)
- 2.A.12.c (how an INVESTOR can obtain information about the definitions of and calculation methodologies for the ESG characteristics of the ESG INDEX)
- 2.A.13/15 (how progress toward, or attainment of, those targets is reported to INVESTORS)

- 2.A.17.d (the processes and systems that support the STEWARDSHIP ACTIVITIES undertaken for the INVESTMENT PRODUCT)
- 2.A.18 (how STEWARDSHIP ACTIVITIES for the INVESTMENT PRODUCT are reported to INVESTORS)
- 2.A.19.b (the stakeholders who will benefit from the attainment of the impact objectives)
- 2.A.19.c (the time horizon over which the impact objectives are expected to be attained)
- 2.A.19.d (how the impact objectives are related to other objectives that the INVESTMENT PRODUCT has and how the pursuit of the impact objectives could result in trade-offs with those other objectives)
- 2.A.19.e (how the attainment of the impact objectives will contribute to third-party sustainable development goals, if there is a stated intention to do so)
- 2.A.19.h (the risks that could significantly hinder the attainment of the impact objectives, should they occur)
- 2.A.19.j (how progress toward the attainment of the impact objectives is reported to INVESTORS)
- 2.A.19.k (the process for assessing, addressing, monitoring, and managing potential negative SOCIAL and ENVIRONMENTAL impacts that may occur in the course of attaining the impact objectives)

The table below provides a detailed comparison of the Circular to management companies of SFC authorized unit trusts and mutual funds—ESG funds and the Global ESG Disclosure Standards for Investment Products disclosure requirements.

29 June 2021 Circular Requirements	Standards Provision #	Comparison and Explanation
E. Disclosure in offering documents		
14. In this regard, an ESG fund should disclose in its offering documents:		
a) The ESG focus of the fund		
(i) a description of the fund's ESG focus (e.g. climate change, green, low carbon footprint, sustainability, etc.); and	2.A.4	If an investment product's objectives, investment process, or stewardship activities systematically address one or more specific ESG issues, the Standards require disclosure of a summary of those specific ESG issues (Provision 2.A.4).
(ii) a list of ESG criteria (e.g. filters, indicators, ratings, third party certificates or labels, etc.) used to measure the attainment of the fund's ESG focus.	2.A.5 2.A.6.b 2.A.8.a 2.A.9 2.A.11 2.A.12.a, b 2.A.14 2.A.19.a, i	The Standards require disclosure of the key elements used to measure and attain an investment product's ESG focus, including environmental and social impact objectives (2.A.19.a), ESG screening and portfolio-level criteria (2.A.9, 2.A.11, 2.A.14), performance indicators (2.A.19.i), ratings (2.A.6.b), indexes used for tracking and benchmarking (2.A.8.a and 2.A.12.a, b), and third-party certificates and labels (2.A.5).

29 June 2021 Circular Requirements	Standards Provision #	Comparison and Explanation
b) The ESG investment strategy		
(i) a description of the investment strategy(ies) adopted by the ESG fund, the binding elements and significance of that strategy(ies) in the investment process, and how the strategy(ies) is(are) implemented in the investment process on a continuous basis;	2.A.3, 2.A.19.f	The Standards require disclosure of a summary description of the ESG approaches used in an investment product (Provision 2.A.3). If an investment product has an impact objective, the Standards require disclosure of the proportion of the portfolio committed to generating impact (Provision 2.A.19.f). In order to avoid duplication with existing disclosures, the Standards do not require a narrative of the investment process.
(ii) a summary of the process of consideration of ESG criteria (as described under paragraph 14(a)(ii) above), which may include the methodologies in measuring these ESG criteria, their sequencing relative to the investment strategies, and examples of the most important ESG criteria considered (if any); and	2.A.3 2.A.6–2.A.19	In order to avoid duplication with existing disclosures, the Standards do not require a narrative of the investment process. They do require, however, descriptions of how and where ESG approaches and criteria are used within the investment process (Provision 2.A.3). In this respect, the Standards were designed to provide more detailed, supplemental disclosures that complement investment process narratives (Provisions 2.A.6–2.A.19).
(iii) a description of whether an exclusion policy is adopted by the ESG fund and the types of exclusion.	2.A.9–2.A.10	The Standards require disclosure of ESG screening criteria and the process for applying the criteria (Provisions 2.A.9 and 2.A.10).
c) Asset allocation		
(i) the expected or minimum proportion of securities or other investments (e.g. in terms of net asset value of the ESG fund) that are commensurate with the fund's ESG focus.	2.A.14, 2.A.19.f	The Standards require disclosure of allocation targets (Provision 2.A.14). The Standards also require disclosure of the proportion of the portfolio committed to generating impact, if there is a stated intention to do so (Provision 2.A.19.f).
d) Reference benchmark		
(i) Where an index is designated as a reference benchmark for the purpose of attaining the ESG focus of an ESG fund:		
– where the fund is tracking an ESG benchmark (e.g. an index fund), details of the benchmark being tracked including the characteristics and general composition of the benchmark; or	2.A.8.a	The Standards require the disclosure of certain information about the use of an ESG index as an investment universe (Provision 2.A.8.a). This provision applies to funds that track ESG indexes as well as actively managed funds that use ESG indexes as investment universes.

29 June 2021 Circular Requirements	Standards Provision #	Comparison and Explanation
– where the fund seeks to measure its ESG focus against a designated reference benchmark, an explanation of how the designated reference benchmark is relevant to the fund.	2.A.12.a, b	Provision 2.A.12 of the Standards requires the disclosure of certain information about any ESG index that is used as a point of comparison for portfolio-level ESG characteristics (i.e., as a benchmark).
e) Additional information reference		
(i) an indication of where investors can find additional information about an ESG fund as required under paragraph 15 below (e.g. website).	See items 15 (a)–(e)	The Standards do not require different information to be disclosed in different places. The Standards require that all disclosures that apply to a particular fund be made within an ESG Disclosure Statement. See items 15 (a)–(e) for how the Standards disclosure requirements compare to the Circular's additional information disclosure requirements.
f) Risks		
(i) a description of risks or limitations associated with the fund's ESG focus and the associated investment strategies (e.g. limitation of methodology and data, lack of standardized taxonomy, subjective judgment in investment selection, reliance on third party sources, concentration in investments with the particular ESG focus, etc.).	2.A.6.c	The Standards require disclosure of the risks and limitations of the ESG information used by an investment product, as well as how those risks and limitations are managed (Provision 2.A.6.c). To avoid duplication with existing requirements that broadly require the disclosure of risks, the Standards do not require specific disclosures about the risks inherent in ESG approaches.
F. Disclosure of additional information		
15. An ESG fund should disclose the following additional information of the ESG fund or the fund manager or the index provider (where the ESG fund tracks an ESG benchmark), as appropriate, to investors to complement the disclosures in the offering documents:		
a) a description of how the ESG focus is measured and monitored throughout the lifecycle of the ESG fund and the related internal or external control mechanisms;	2.A.5 2.A.6.b 2.A.8.a 2.A.9 2.A.11 2.A.12.a, b 2.A.14 2.A.19.a, i	The Standards require disclosure of the key elements used to measure and attain an investment product's ESG focus, including environmental and social impact objectives (2.A.19.a), ESG screening and portfolio-level criteria (2.A.9, 2.A.11, 2.A.14), impact performance indicators (2.A.19.i), ratings (2.A.6.b), indexes used for tracking and benchmarking (2.A.8.a and 2.A.12.a, b), and third-party certificates and labels (2.A.5). The Standards do not require, however, a description of internal or external control mechanisms.

29 June 2021 Circular Requirements	Standards Provision #	Comparison and Explanation
b) a description of the methodologies adopted to measure the ESG focus referred to in paragraph 14(a)(i) above and the fund's attainment of the ESG focus;	2.A.5 2.A.6.b 2.A.8.a 2.A.9 2.A.11 2.A.12.a, b 2.A.14 2.A.19.a, i	The Standards require disclosure of the key elements used to measure and attain an investment product's ESG focus, including environmental and social impact objectives (2.A.19.a), ESG screening and portfolio-level criteria (2.A.9, 2.A.11, 2.A.14), impact performance indicators (2.A.19.i), ratings (2.A.6.b), indexes used for tracking and benchmarking (2.A.8.a and 2.A.12.a, b), and third-party certificates and labels (2.A.5).
c) a description of due diligence carried out in respect of the ESG-related attributes of the fund's underlying assets;	2.A.6.c	The Standards require disclosure of the risks and limitations of the ESG information used (and how those risks and limitations are managed), which include due diligence on the ESG information used to select the fund's assets (Provision 2.A.6.c).
d) a description of the engagement (including the proxy voting) policies (if any); and	2.A.16	The Standards require disclosure of how an investor can obtain a complete and current copy of all of the policies that govern the investment product's stewardship activities (Provision 2.A.16).
e) a description of the sources and processing of ESG data or a description of any assumptions made where relevant data is not available.	2.A.6	The Standards require disclosure of certain information about the sources and types of ESG information used by an investment product (Provision 2.A.6).
16) This additional information may be disclosed on the fund manager's website or by other means.	N/A	The Standards do not require investment managers to make disclosures on their websites. However, Provision 1.A.9 requires investment managers to make their ESG Disclosure Statements available to investors. Investment managers can meet the requirements of Provision 1.A.9 by posting their ESG Disclosure Statements on their websites.
17) The additional information should be reviewed and updated from time to time to ensure accuracy.	1.A.10.b	The Standards requires that an ESG Disclosure Statement be updated if changes are made that affect the information presented in an ESG Disclosure Statement or if there are changes to the Standards that affect information presented in an ESG Disclosure Statement (Provision 1.A.10.b).