CIFSC CANADIAN INVESTMENT FUNDS STANDARDS COMMITTEE

May 31st, 2024

RE: Reponse to Comments and Proposed Changes to the CIFSC RI Framework

Toronto, May 31st 2024 - The Canadian Investment Funds Standards Committee (CIFSC) thanks commentors for their time in reviewing the revised Responsible Investment Identification Framework. The Committee received comments from the Investment Funds Institute of Canada which includes collective input from ESG specialists within Canada's largest asset managers.

The below table summarizes the feedback from IFIC, and includes responses from CIFSC. Where referenced, "Committee" refers to the opinion of the voting membership of CIFSC.

	Feedback	CIFSC Response
1	Commentors requested removal of reference to CFA Disclosure Standards in CIFSC RI Framework	The Committee believes that the CFA Disclosure standards set a higher bar of precise disclosure as compared to current CSA guidance (81-334). In the interest of Canadian investors who seek to find detailed disclosures, the Committee believes that encouraging more disclosures grants said investors access to more information in a standardized format, which serves their best interest. The Committee does not believe that reference to this robust disclosure standard diminishes the efficacy of the framework in any way. The Committee notes that a small number of Canadian-domiciled fund managers disclose to these standards today.
2	Commentors have requested that the CIFSC aligns itself precisely with the terminology provided by the CFAI/GSIA/PRI document.	The Committee agrees that the CIFSC RI framework should align with CFAI/GSIA/PRI terminology wherever possible to reduce the potential for greenwashing and to reduce confusion for retail investors, however we do not deem it necessary or appropriate to use the document verbatim. The Committee notes importantly that the scope of the CIFSC RI Identification Framework encompasses only what the CSA (per update to Staff notice 81-334) refer to as "ESG Objective funds." It is the opinion of the Committee that this creates a conflict for funds that have only described ESG Integration in their investment strategy section and have disclosed an ESG-related objective. By the CSA's definition, any fund with an ESG-related name and related ESG objective and strategy would be considered an ESG Objective Fund. However, according to CFAI/GSIA/PRI terminology definitions, ESG Integration on its own does not fit the criteria of a fund using ESG information as 'primary' or 'central' to the investment process, given that "ESG Integration" defines using ESG-related information to improve risk-adjusted returns. Furthermore, the formal definition outlines the idea that this information is not given more or less importance than traditional financial data. In informal consultation with OSC Staff, it was noted that OSC Staff has not seen any ESG Objective Funds that only use ESG integration as an ESG strategy (with no other stated strategies). Additionally, in consultation with members of the CFA Institute's ESG Technical Committee it was noted that funds that disclose ESG Integration only, are unlikely to be ESG Objective funds. To reconcile this conflict and to keep in line with identifying only ESG Objective funds, the Committee proposes to remove "ESG Integration" as a flag in context of this framework. Another logical alternative might be to include "ESG Strategy" (as defined by CSA under 81-334) funds as part of the CIFSC RI Framework. However the larger universe of funds and the Committee's limited resources will make this expanded scope difficult to execute in practice. The Committee has reviewed the current universe of funds currently flagged only with "ESG Integration" for further color. The list of funds affected is included in the final proposed framework document.
3	Commentors have requested that the Committee remove specific example around global signatories in the ESG Thematic section (citing that this level of precision might not be necessary)	In communication with fund manufacturers around the inaugural set of RI funds, and the abundance of references to the Sustainable Development Goals as the basis for being identified as an RI investment, the Committee believes it is worthwhile to include this level of precision in the document.

4	Commentors have requested "ESG Thematic" be renamed to "Thematic."	The Committee disagrees with this proposed change. Without the ESG reference, 'thematic' funds might be mistaken for those that invest in themes not tied to environmental or social objectives. Funds that invest in technology themes, for example, typically don't have specific ESG objectives.
5	Commentors have requested that ESG Exclusions be aligned with CFAI/GSIA/PRI terminology, which would include a broad category for "Screening" where ESG Exclusions funds would be re-cast to "Negative Screening" and the current "Best-in-Class" flag be re-cast to "Positive Screening"	The Committee believes that the current naming scheme serves investors well and keeping consistent without 'nesting' the concept of screening into exclusionary and positive would better serve Canadian investors. The committee will keep "positive screening" as an alternate description in the definition. The Committee notes that the original names of the categories/flags were arrived upon via extensive consultations with key stakeholders in the industry.
6	Commentors have requested that the reference to Green Bonds as a flag for Impact be removed as it is not consistent with CFAI/GSIA/PRI definition.	The committee is amenable to removing this reference given its specificities.
7	Commentors have requested that "ESG Related Engagement and Stewardship" be renamed to simply "Stewardship"	Similar to response to #4. The Committee believes it is important to delineate between stewardship and engagement practices as they relate to ESG-related objectives of the fund, and general stewardship practices which all IFMs are responsible for.
8	Commentors requested that the process for new funds only consider regulatory documents.	Though the Committee relies primarily on regulatory documents as the first information source, certain exempt products often lack detailed disclosures around ESG practices. The Committee is of the mindset that these products should not be excluded from the framework if reasonable materials are provided that show evidence of an ESG-related approach.
9	Commentors requested clarity on who can make a request for a fund review (only fund manufacturer, or others?).	The Committee clarifies that reviews for RI flags will follow the same consistent approach used for traditional fund categories. Any member of the public is free to request a review. If a re-classification or change is triggered, the Committee will review during monthly meetings. If a change is warranted, the fund manufacturer is alerted and given opportunity to comment or respond before formal changes are made in the following month.

The CIFSC once again thanks the members of IFIC for their comments. A revised draft of the RI Identification Framework follows in this document.

Among the revisions noted, the committee is proposing to remove ESG Integration and Evaluation from the scope of the framework. As the industry progresses, the committee notes the increased amount of funds implementing this approach to various degrees, particularly those that the CSA has alluded to as "ESG Consideration" or "ESG limited Consideration" funds, which extend beyond the scope of our framework. The intent of the framework is to identify funds with a targeted responsible investment objective. To date, the committee has identified three investment strategies with ESG Integration and Evaluation identified as the sole approach and will be reaching out directly to the affected fund companies for further clarity.

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

The CIFSC's intent is to develop a pragmatic standard that assists Canadian investors and their advisors in identifying investment fund products that have disclosed RI investment approaches in their regulatory filings and related offering documents. The CIFSC notes that:

- The scope of this framework is limited to investment funds offered in Canada
- This is an identification framework and not a labeling standard.
- The framework is not intended to assess the efficacy of the implementation of any approaches identified.
- The Responsible Investment Approaches are not mutually exclusive. Investment products can be identified as using more than one of the approaches listed.
- Only investment funds that have disclosed a sustainability-related Investment Objective are captured in this framework – the universe of Canadian domiciled investment funds that consider ESG-related information encompasses a broader set of funds than those identified here.
- The framework is complementary to, and not in conflict with regulation and related guidance from CSA Staff Notice 81-334 and is broadly aligned with global developments such as the CFA Institute's Global ESG Disclosure Standards for Investment Products[1] and the CFA Institute's Definitions for Responsible Investment Approaches.

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 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 Investment Objective portion of a fund's prospectus 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

[1] 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 this framework.

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 consists of 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**: examples of the types of funds that might be identified under the approach, and common terminology that these funds are using.

ESG Exclusions

Definition

Investment funds that use ESG exclusions have specific sectors, industries, materials, geographic regions, or companies that are not permitted in the portfolio based on clearly defined ESG criteria which can be qualitative or quantitative in nature and disclosed clearly in regulatory documents. 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. 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.

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 that determine what holdings are permitted. 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.

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.

ESG Thematic Investing

Definition

In general, thematic investing is underpinned by the belief that economic, technological, demographic, cultural, political, environmental, social, and regulatory dynamics are key drivers of investment risk and return. Thematic investing is an approach to selecting assets that are strongly connected to these dynamics. 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. ESG Thematic funds have a specific focus on themes that fit into one or more of the Environmental, Social or Governance buckets but generally do not focus on all three.

Disclosure of broad commitments to global agreements like the United Nations Sustainable Development Goals (which encompasses 17 distinct goals) would not constitute an ESG Thematic Investing fund by CIFSC's definitions.

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 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 use the fund's position of ownership to influence the company to make decisions that increase the company's positive impact on 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.

Per guidance from CSA Staff Notice 81-334, these activities must be disclosed at the fund level as opposed to at the firm level.

Fund Universe

Funds with any of the approaches outlined in this document may be considered provided they meet the above definition.

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. Examples of metrics used to track positive impact might include: renewable electricity capacity added (measured in MWh), an increase in water treated, saved, or provided (measured in megaliters), or an increase in affordable housing units (measured in number of units).

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 that usage terminology that include impact, positive change, and others would be considered for identification under this approach.

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 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.
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.
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 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.
Impact Investing	Impact Investing	Environmental and Social Impact Objectives – 2.A.19, 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.

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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.