Delivered via email

Date: December 1, 2020

To: Reid Baker, Chair of the Canadian Investment Funds Standards Committee

From: Dustyn Lanz, CEO, Responsible Investment Association

RE: CIFSC's Proposed RI Fund Identification Framework

Dear Voting Members of the Canadian Investment Funds Standards Committee (CIFSC):

This letter outlines the Responsible Investment Association's (RIA) response to the CIFSC's "Responsible Investment Fund Identification Framework," which is publicized here. While we have a good relationship with the CIFSC and we will continue to engage in constructive dialogue, we are writing to express concerns related to: (1) the CIFSC's definitions; (2) its plan to integrate a quantitative assessment into its framework; (3) the process by which the CIFSC has developed its framework; and (4) potential conflict with the federal government's plans for identifying sustainable investments. Our letter is organized into four sections corresponding to each of these concerns.

1. Definitions of RI Approaches

Although the CIFSC's definitions are inspired by existing ones used by industry bodies working in responsible investment (RI), unfortunately they diverge in ways that are likely to create confusion in the market. For example, the CIFSC's proposed definition of "ESG evaluation and integration" seems to be a proprietary one that conflates ESG integration with positive screening.

We implore the CIFSC to join the global effort to align terminology on RI approaches, rather than creating new, proprietary definitions that would undermine the global efforts that are currently underway to promote a common language in responsible investment.

We strongly encourage the CIFSC to align its definitions with those of the CFA Institute, which are published in draft form via a recent consultation paper. The CFA Institute has based its definitions on a global consultation with industry stakeholders and a review of terminology used by the UN-supported Principles for Responsible Investment (PRI) and the Global Sustainable Investment Alliance (GSIA), among others. These are the leading industry bodies in the field globally, who are better positioned than the CIFSC to be defining responsible investment approaches. We expect the CFA's definitions to be widely adopted upon their final publication in 2021.

2. Integrating a Quantitative Assessment into the CIFSC Framework

The CIFSC has announced plans to integrate a quantitative assessment into its framework. While the exact methodology of this quantitative assessment is not yet determined, the CIFSC has indicated in its meetings that it intends to use fund-level ESG scores developed by CIFSC member firms (member list here), with a minimum ESG score being required for a fund to qualify as a responsible or impact investment in one of the five categories noted in the CIFSC's consultation paper.

While we recognize that fund-level ESG scores can be a useful input for an investment decision, setting a minimum holdings-based score for a fund to be called a responsible investment would risk missing the mark with respect to numerous RI strategies or approaches.

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For example, the CIFSC has included shareholder engagement among its various approaches to RI. However, ESG scores do not measure shareholder engagement. From a fund manager's perspective, a subpar ESG score is actually one of the most compelling reasons to engage with an otherwise profitable company. By engaging with a company, the fund manager can help to strengthen the company's ESG performance as well its long-term shareholder value. For example, a fund could take a position in some high GHG-emitting companies in order to help steward these companies towards lower GHG emissions. Such a fund is doing important and impactful engagement work, but it may not meet a minimum quantitative threshold based on the ESG scores of its holdings. This example illustrates why a quantitative, holdings-based assessment of ESG scores at the fund level is not suitable for measuring shareholder engagement.

The CIFSC has also included impact investing among its various approaches to RI. However, fund-level ESG scores are not impact metrics – they do not measure positive social or environmental impacts. There are numerous frameworks that do indeed measure positive impacts, such as IRIS Plus and GIIRS Ratings, which would be more suitable for a quantitative assessment of impact investments.

In methodological terms, one RI strategy/approach that would be identifiable with a quantitative, holdings-based assessment would be positive screening, which refers to the selection of companies based on positive ESG performance or high ESG scores. However, the CIFSC has not included positive screening in its framework.

To be clear, the RIA absolutely endorses the use of ESG research – ESG data is a vital input for responsible investing. The issue here is CIFSC's tentative plan to use holdings-based ESG scores to assess categories of responsible investment that are not covered by these scores. The CIFSC may be on track to take an overly simplistic approach to decide what is or is not an RI fund.

Evaluating the broad range of responsible and impact investing funds requires a more nuanced and sophisticated analysis of investment processes, policies & practices, which the CIFSC may not be positioned to deliver without any staffing, resources, or engagement with asset managers.

3. The CIFSC's Process

The ISEAL Alliance – a global network of sustainability standards and accreditation bodies – has published the ISEAL Credibility Principles to serve as design principles for standards setters to maintain credibility with respect to any standards they develop. One of the key principles is *engagement*:

> *Standards-setters engage a balanced and representative group of stakeholders in standards development. Standards systems provide meaningful and accessible opportunities to participate in governance, assurance and monitoring and evaluation. They empower stakeholders with fair mechanisms to resolve complaints.*

The CIFSC has conducted this work without meaningful engagement with the asset management community – the key stakeholders who will be directly impacted by its work. Although the CIFSC has invited the RIA and other associations to its meetings, we have no voting capacity and many of our comments have not been incorporated.

We encourage the CIFSC to engage with a representative group of stakeholders and provide meaningful opportunities to participate in the governance and design of any standards that it plans to develop. We believe this type of engagement is a vital component of any credible standard for responsible investment.

RiA
Responsible Investment Association

(4) Potential Conflict with the Federal Government

In its Fall Economic Update on November 30th, the federal government committed $7.3 million over three years to create a public-private Sustainable Finance Action Council (SFAC), which will launch in early 2021. This was a core recommendation from Canada's Expert Panel on Sustainable Finance.

According to page 91 of the Fall Economic Update, the SFAC will work on developing a well-functioning sustainable finance market in Canada, making recommendations on critical market infrastructure needed to attract and scale sustainable finance in Canada, including the development of "standards for investments to be identified as sustainable."

This news has direct implications for any work in the area of RI fund standards. The RIA will be engaging with the SFAC to understand its plans and intentions before proceeding with any work on fund standards or certification. We believe this is prudent thing to do in order to avoid conflicts and further market confusion. We encourage the CIFSC to do the same.

Conclusion

We wish to reiterate our intention to work constructively and collaboratively with the CIFSC to get this right. Having multiple, competing frameworks to identify RI funds in Canada does not serve the market well – fragmentation is the opposite of standardization. We invite you to work with the RIA and other key stakeholders to promote a common language in responsible investment.

Sincerely,

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