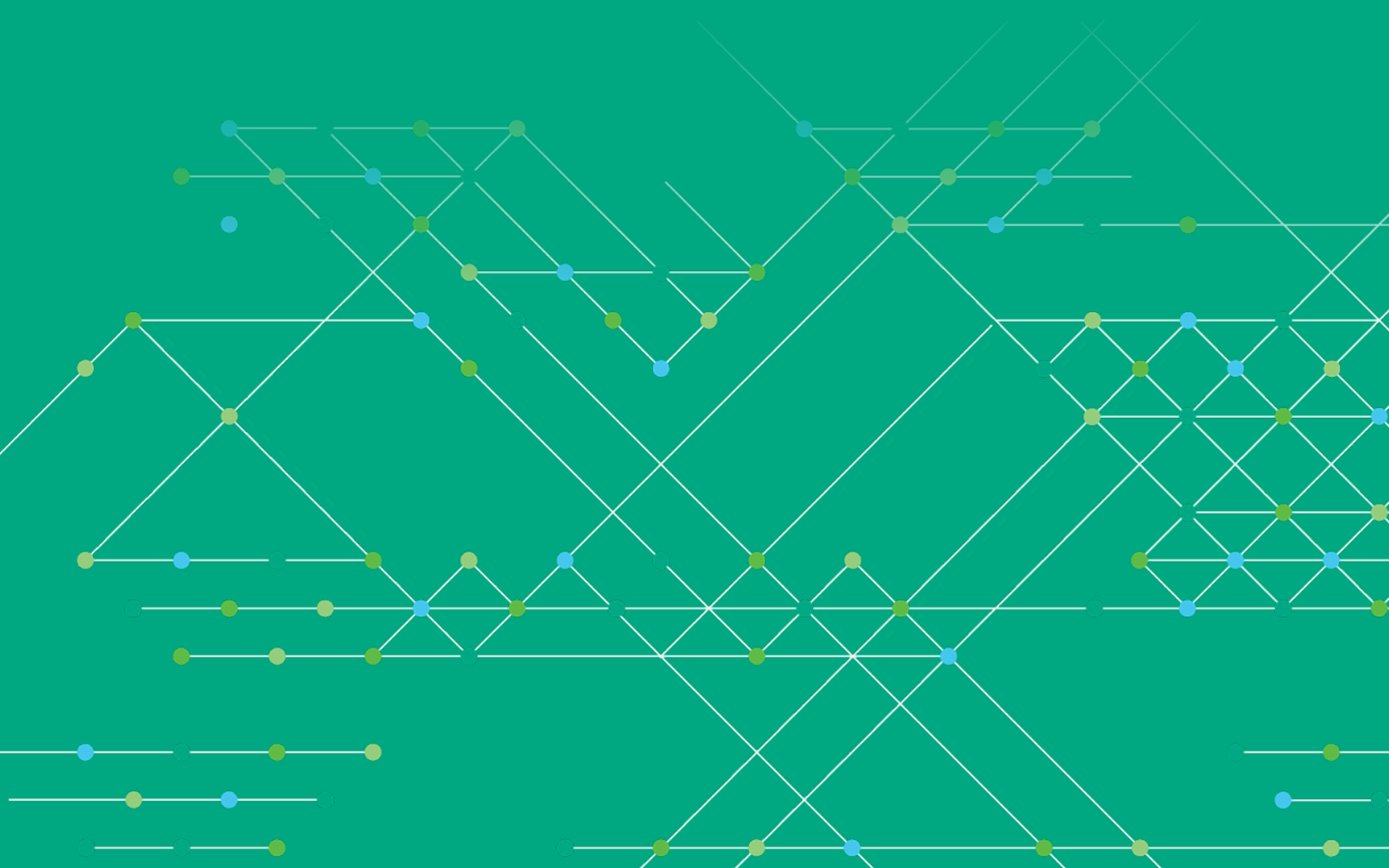




CFA Institute

GUIDE FOR CREATING A GLOBAL ESG DISCLOSURE STANDARDS FOR INVESTMENT PRODUCTS POLICIES AND PROCEDURES MANUAL

May 2023

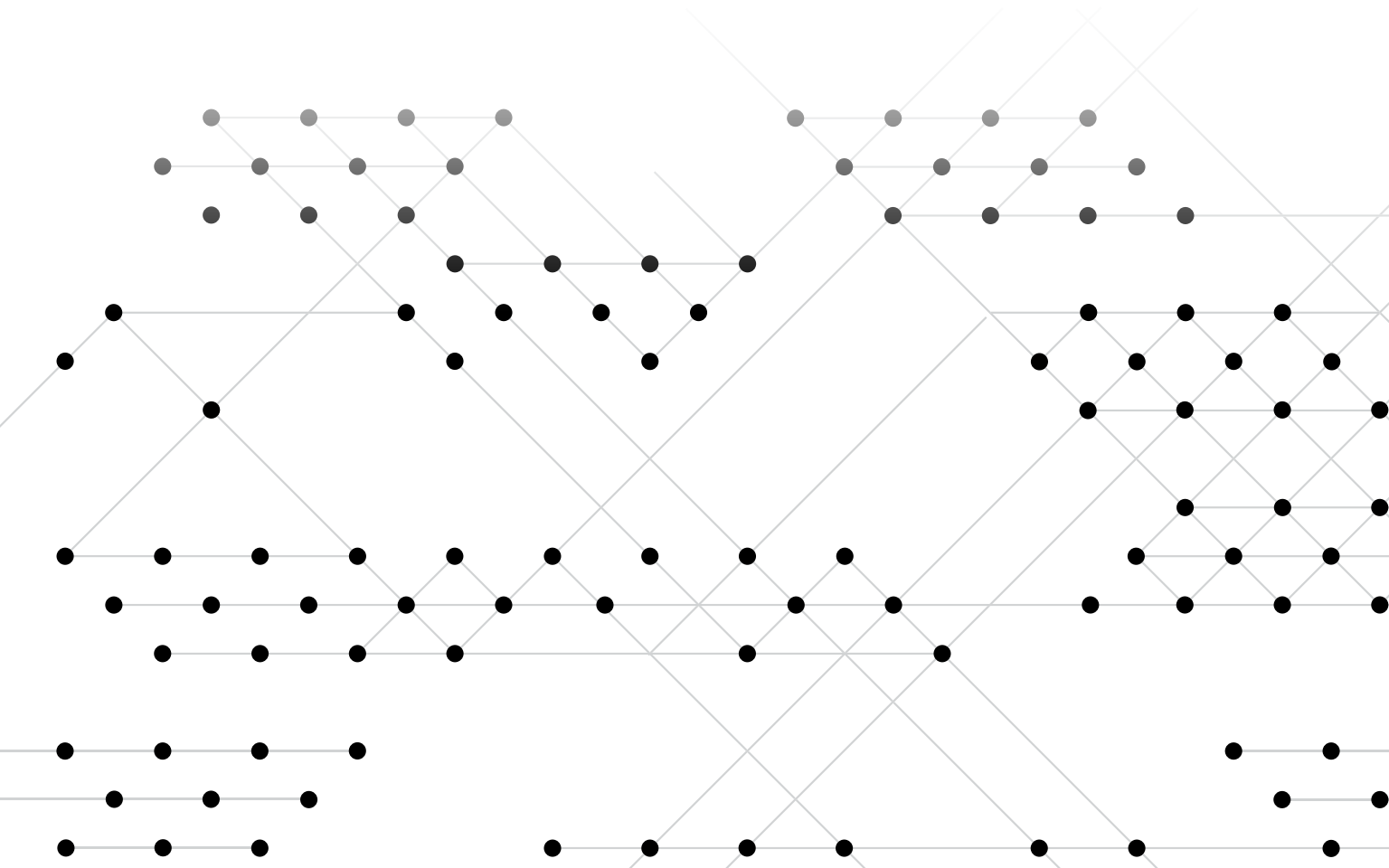




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and Procedures Manual**

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GUIDE FOR CREATING A GLOBAL ESG DISCLOSURE STANDARDS FOR INVESTMENT PRODUCTS POLICIES AND PROCEDURES MANUAL

INTRODUCTION

The Global ESG Disclosure Standards for Investment Products ("ESG Disclosure Standards") require an investment manager to document its policies and procedures for establishing and maintaining compliance with the requirements of the ESG Disclosure Standards, as well as any recommendations it has chosen to adopt. Most investment managers will want to create an ESG Disclosure Standards Policies and Procedures Manual (P&P Manual) to contain all of their policies and procedures that support compliance with the ESG Disclosure Standards. There is no "one size fits all" ESG Disclosure Standards P&P Manual that is appropriate for all investment managers. Each investment manager's P&P Manual must be created for its specific conditions and circumstances.

This guide for creating a P&P Manual focuses on the Fundamentals of Compliance requirements and does not cover every ESG Disclosure Standards requirement and recommendation. Investment managers should, therefore, take care to make sure they have reviewed and addressed all of the ESG Disclosure Standards requirements that are applicable to an investment product and the investment manager, as well as any recommendations the investment manager has chosen to adopt.

The ESG Disclosure Standards requirements and recommendations can be found in the provisions or in interpretive guidance, including the ESG Disclosure Standards Handbook. Requirements are provisions, tasks, or actions that must be followed or performed. Recommendations are provisions, tasks, or actions that are not required to be followed but that should be followed. For example, it is a recommendation of the ESG Disclosure Standards that investment managers should obtain independent examination on their ESG Disclosure Statements.

This guide is not authoritative guidance; it is simply a starting point to help investment managers think about what should be included in a P&P Manual. Each investment manager will need to tailor its policies and procedures to fit its situation. For example, this guide assumes that an investment manager has an ESG Disclosure Standards Oversight Committee, but not all investment managers will have an ESG Disclosure Standards Oversight Committee.

IMPORTANT POINTS TO KEEP IN MIND

Because the ESG Disclosure Standards may change over time, investment managers must establish policies and procedures to identify any changes or additions to the ESG Disclosure Standards and interpretive guidance. Investment managers must also comply with any laws and regulations that apply to the preparation and distribution of an ESG Disclosure Statement. Laws and regulations can also change over time, so investment managers must create policies and procedures to monitor and identify changes and additions to such laws and regulations.

Before an investment manager creates a P&P Manual, there are a few things that would be helpful to know. First, it is important to understand the difference between a "policy" and a "procedure." A policy is a basic principle used to guide decisions and actions. A procedure is an action required to implement a policy. This sample P&P Manual focuses primarily on policies but also includes some procedures. Detailed procedures will often reside outside of the investment manager's P&P Manual but may, in some cases, be incorporated or referenced within the P&P Manual. For example, within the P&P Manual, an investment manager may include key concepts of procedures for preparing an ESG Disclosure Statement but refer to more detailed procedures that are maintained in documents housed by the department responsible for preparing the ESG Disclosure Statements.

Here are some important points for investment managers to keep in mind as they develop their own P&P Manual:

- Investment managers should identify specific personnel, or those who hold certain job titles or positions at the firm, who will be responsible for developing and maintaining the policies and procedures and ensuring that all applicable requirements are being followed. Several areas within the firm (portfolio management, legal and compliance, marketing, etc.) may need to be involved.
- Policies and procedures are unique to an investment manager—there is no "one size fits all" template. Although an investment manager may use an external party to assist with the creation and documentation of policies and procedures, the P&P Manual must be designed for the specific investment manager.
- A P&P Manual should not simply repeat the ESG Disclosure Standards provisions. Here is an example based on Provision 1.A.6.b, which requires an investment manager to have policies and procedures for monitoring and identifying changes and additions to the Global ESG Disclosure Standards for Investment Products and interpretive guidance:
 - ♦ Incorrect: "Policies and procedures have been created to monitor and identify changes in and additions to the Global ESG Disclosure Standards for Investment Products as well as interpretive guidance." This statement is not an example of a policy or procedure because it simply repeats the provision and does not include the actions the investment manager will take to comply with the requirement.

- ◆ Correct: "In order to stay informed of any new guidance, interpretations, or changes to the Global ESG Disclosure Standards for Investment Products that affect an investment product's ESG Disclosure Statement, individuals responsible for compliance with the requirements and recommendations of the Global ESG Disclosure Standards for Investment Products will:
 - ◆ ensure the ESG Disclosure Standards Compliance Notification Form contact information is up to date;
 - ◆ participate in webinars and other online training programs offered by CFA Institute; and
 - ◆ review the information provided by the firm's examination firm and other ESG-related service providers regarding interpretation of and news about the ESG Disclosure Standards."
- Investment managers must have policies and procedures in place for:
 - ◆ reviewing and ensuring that all required information is included in an ESG Disclosure Statement and that the information is accurate; and
 - ◆ ensuring that the investment manager has complied with all laws and regulations that apply to the preparation and distribution of an ESG Disclosure Statement.
- Investment managers must maintain an accurate history of policies and procedures for the entire period for which the investment manager claims that its ESG Disclosure Statements have been prepared and presented in compliance with the requirements of the ESG Disclosure Standards. Some investment managers will create a new version of the P&P Manual when a change is made, whereas others will update the same document, noting any changes and the effective date of those changes. What is important is that investment managers are able to identify when changes to policies are effective so that anyone who is reviewing the policies and procedures, including examiners, will know which policy was in place for which period.

SAMPLE POLICIES

Each sample policy in this guide includes background on key points that an investment manager should consider and document in its P&P Manual. As mentioned previously, the following sample policies and procedures do not address every requirement and recommendation that may apply to an investment manager. This guide is intended to help an investment manager get started with documenting its policies and procedures. An investment manager needs to tailor its policies and procedures to its specific circumstances and must also ensure the policies and procedures are complete.

Responsibility for ESG Disclosure Standards Claim of Compliance

Background:

An ESG Disclosure Statement is a document that contains all of the disclosures required by the ESG Disclosure Standards that apply to a specific investment product. In order to claim that an ESG Disclosure Statement has been prepared and presented in compliance with the ESG Disclosure Standards, an investment manager must comply with all requirements of the ESG Disclosure Standards and interpretative guidance that apply to a specific investment product as well as the investment manager. An investment manager should establish clear accountability for its claim of compliance. An investment manager should assign at least one person internally who is responsible for monitoring compliance with the ESG Disclosure Standards. Depending on the investment manager's size and complexity, maintaining compliance may require coordination across multiple departments, such as portfolio management, compliance, and marketing. To do this, an investment manager might establish an ESG Disclosure Standards Oversight Committee and include members from the departments of the firm that are responsible for the preparation and presentation of the ESG Disclosure Statements and compliance with the requirements of the ESG Disclosure Standards.

Sample Policy:

XYZ Investments is committed to ensuring its ESG Disclosure Statements are prepared and presented in compliance with the ESG Disclosure Standards. XYZ Investments acknowledges that compliance with the ESG Disclosure Standards requires coordination on behalf of multiple departments. The ESG Disclosure Standards Oversight Committee has been established for the purpose of coordinating the efforts to oversee the preparation and presentation of the ESG Disclosure Statements in accordance with the ESG Disclosure Standards. The ESG Disclosure

Standards Oversight Committee meets annually and includes representatives from the portfolio management, compliance, and marketing departments.

The ESG Disclosure Standards Oversight Committee is responsible for:

- determining for which investment products ESG Disclosure Statements will be created;
- reviewing changes and updates to the ESG Disclosure Standards and to governing laws and regulations;
- determining that changes in the firm's policies and procedures resulting from changes in the ESG Disclosure Standards or regulatory requirements have been made and have been properly documented in the P&P Manual;
- ensuring the ESG Disclosure Statements are accurate and complete;
- ensuring the ESG Standards Compliance Notification Form has been filed in a timely manner;
- determining which ESG Disclosure Statements will be examined; and
- overseeing the ESG Disclosure Standards examination process, including selecting an appropriate independent examination firm.

The ESG Disclosure Standards Oversight Committee Charter, which includes specific descriptions of roles and responsibilities, can be found in the Internal Policies and Procedures folder in the firm's Intranet site.

Complying with Laws and Regulations

Background:

Investment managers must ensure that they adhere to all applicable laws and regulations regarding the preparation and distribution of an ESG Disclosure Statement. Investment managers must, therefore, have policies and procedures to identify all applicable laws and regulations and to monitor changes and additions to laws and regulations regarding the preparation and distribution of an ESG Disclosure Statement.

Sample Policy:

XYZ Investments complies with all applicable laws and regulations regarding the preparation and distribution of an ESG Disclosure Statement. The Compliance Department is responsible for identifying all applicable laws and regulations that apply to the preparation and distribution of ESG Disclosure Statements, as well as any changes to laws and regulations that require a change to the firm's ESG Disclosure Standards policies and procedures or to the information contained in any ESG Disclosure Statement.

The Compliance Department will notify the ESG Disclosure Standards Oversight Committee of any changes to laws and regulations that impact the firm's policies for complying with the ESG Disclosure Standards. The Compliance Department will update the firm's ESG Disclosure Standards policies and procedures as appropriate. The ESG Disclosure Standards Oversight Committee will determine which department has responsibility for updating ESG Disclosure Statements affected by changes in laws or regulations.

Period of Compliance

Background:

An ESG Disclosure Statement must cover a minimum period of one year, or since inception if the investment product has existed for less than one year. The investment manager should document the dates for the information presented in each ESG Disclosure Statement.

Sample Policy:

XYZ Investments maintains a list of all investment products for which an ESG Disclosure Statement has been prepared as well as all ESG Disclosure Statements. For each ESG Disclosure Statement, the following information is recorded:

- the investment product(s) covered by the ESG Disclosure Statement,
- the inception date(s) of the investment product(s), and
- the dates covered by the ESG Disclosure Statement.

Documenting Policies and Procedures

Background:

An investment manager must document its policies and procedures used in establishing and maintaining compliance with the requirements of the ESG Disclosure Standards and the recommendations it has chosen to adopt. There is no requirement to create and document policies and procedures to comply with requirements of the ESG Disclosure Standards that do not apply to the investment manager. However, investment managers must actively make a determination about the applicability of all the requirements of the ESG Disclosure Standards and document their policies and procedures accordingly. Investment managers should review all requirements of the ESG Disclosure Standards annually to determine if changes in the requirements or changes in the investment manager's ESG approaches warrant changes to existing policies and procedures.

Sample Policy:

The Portfolio Management Department is responsible for maintaining the firm's ESG Disclosure Standards Policies and Procedures Manual (P&P Manual), including all prior versions of the P&P Manual. The Portfolio Management Department is responsible for monitoring for any changes to the requirements of the ESG Disclosure Standards annually, including any interpretive guidance published by CFA Institute and the ESG Disclosure Standards governing bodies.

If changes to the firm's policies and procedures are required, the Portfolio Management Department will submit a draft of the proposed changes to the ESG Disclosure Standards Oversight Committee for review and approval. Once changes are approved, the Portfolio Management Department will update the P&P Manual and record the date of the changes. The P&P Manual will be included in the firm's Internal Policies and Procedures folder in the Intranet, and a memo describing the changes will be distributed to members of the ESG Disclosure Standards Oversight Committee.

Identifying Changes to the ESG Disclosure Standards**Background:**

Investment managers must ensure they are aware of any changes to the ESG Disclosure Standards, including the issuance of interpretive guidance. Changes to the ESG Disclosure Standards will be communicated to the contacts listed on the ESG Standards Compliance Notification Form and may be in the form of Q&As, guidance statements, or interpretations published by CFA Institute and the ESG Disclosure Standards governing bodies.

Sample Policy:

The ESG Disclosure Standards Oversight Committee is responsible for identifying changes to the ESG Disclosure Standards that are relevant to the firm's ESG Disclosure Statements. To ensure notices from CFA Institute regarding changes to the ESG Disclosure Standards are received, the Director of Marketing is responsible for updating any changes in contact information on the ESG Standards Compliance Notification Form. A member of the ESG Disclosure Standards Oversight Committee representing the Portfolio Management Department is responsible for periodically reviewing the CFA Institute ESG Disclosure Standards webpage to identify changes to the ESG Disclosure Standards. In addition, the examination firm chosen to provide independent examination of the ESG Disclosure Statements will provide the ESG Disclosure Standards Oversight Committee with an update on any new guidance at the conclusion of each examination.

Recordkeeping

Background:

Documents and records that support the information included in an investment manager's ESG Disclosure Statement must be captured and maintained and must be made available to regulators and examiners in a usable format within a reasonable time frame. Examples of such documents and records may include regulatory filings, investment policy statements, internal and/or vendor research and reports, marketing materials, and so on.

This recordkeeping requirement applies to all periods covered by an investment manager's ESG Disclosure Statements. Because ESG Disclosure Statements are a form of communication to potential or current investors, investment managers may also need to consider regulatory recordkeeping requirements.

In addition, if an investment manager uses a third party for supplying information contained or referenced in its ESG Disclosure Statements, such as an ESG data provider or proxy voting and recordkeeping service, and the investment manager places reliance on information and records from the third party, the investment manager must establish policies and procedures to ensure that the third-party records and information are properly documented or captured and maintained.

Sample Policy:

It is XYZ Investments' policy to keep all documentation supporting the information contained in its ESG Disclosure Statements for the periods covered by the current and previous ESG Disclosure Statements. Several departments within the firm are responsible for the documentation that supports the information in the firm's ESG Disclosure Statements.

Records to support the firm's ESG approaches and third-party ESG research information are stored in the Portfolio Management System Intranet files. Records to support the firm's proxy voting and engagement activities are stored in the firm's Stewardship Intranet files. Records that pertain to regulatory requirements are stored in the firm's Compliance Department Intranet files.

ESG Standards Compliance Notification Form

Background:

An investment manager is required to notify CFA Institute of its use of the ESG Disclosure Standards by submitting an ESG Standards Compliance Notification Form. This form must be filed when the investment manager initially completes an ESG Disclosure Statement for any of its

investment products. ESG Disclosure Statements must not be made available to investors until the investment manager has filed the ESG Standards Compliance Notification Form.

Subsequently, the investment manager must file an updated ESG Standards Compliance Notification Form annually, between 1 January and 30 June. The investment manager should document in its policies and procedures who is responsible for filing its annual ESG Standards Compliance Notification Form and the target date for submission of the form.

Sample Policy:

The Director of Marketing is responsible for submitting the ESG Standards Compliance Notification Form annually by 30 April. The Director of Marketing is listed as the primary contact, and the Chief Compliance Officer is listed as the secondary contact. The Director of Marketing will save a copy of the submitted ESG Standards Compliance Notification Form and the receipt confirmation from CFA Institute to the Marketing Department's Intranet site.

Preparing ESG Disclosure Statements

Background:

An investment manager's policies and procedures do not need to address every disclosure that is included in an ESG Disclosure Statement, but policies and procedures should address:

- how the investment manager ensures that all required disclosures are included in an ESG Disclosure Statement;
- how the investment manager ensures that the information contained in an ESG Disclosure Statement does not conflict with regulatory filings;
- who reviews ESG Disclosure Statements for completeness and accuracy;
- how often ESG Disclosure Statements are reviewed; and
- how the investment manager ensures that the preparation and distribution of ESG Disclosure Statements comply with applicable laws or regulations.

Sample Policy:

The Portfolio Management Department is responsible for preparing all ESG Disclosure Statements. The Portfolio Management Department uses the ESG Disclosure Statement Template available on the CFA Institute ESG Disclosure Standards webpage to prepare each ESG Disclosure Statement.

It is the firm's policy to include in the ESG Disclosure Statement only the information that is required by the ESG Disclosure Standards.

The Portfolio Management Department and Compliance Department are responsible for ensuring all of the required information and disclosures are included in ESG Disclosure Statements. The Compliance Department is responsible for ensuring the information contained in an ESG Disclosure Statement does not contradict information contained in any relevant regulatory documents. The Portfolio Management Department is responsible for reviewing portfolio management documents, including investment policies and fund or strategy profiles, to determine that disclosures in the ESG Disclosure Statement are consistent with those materials. In addition, the Director of Marketing is responsible for ensuring the disclosures in the ESG Disclosure Statement are consistent with relevant marketing literature.

The ESG Disclosure Standards Oversight Committee reviews all ESG Disclosure Statements and provides them to the Compliance Department for final approval. ESG Disclosure Statements are reviewed by the Committee annually, typically by the end of March. The Compliance Department provides the Marketing Department with all ESG Disclosure Statements that have been reviewed and approved.

Making ESG Disclosure Statements Available

Background:

Once an investment manager has filed its initial ESG Standards Compliance Notification Form, the investment manager must make its ESG Disclosure Statements available to investors. An investor is any person or entity that currently invests in, or has expressed interest in and is qualified to invest in, an investment product. This policy section should address how an investment manager's ESG Disclosure Statements are made available to investors, how investors are defined, and which individual or role is responsible for ensuring that ESG Disclosure Statements are made available to investors.

Sample Policy:

It is XYZ Investments' policy to make ESG Disclosure Statements broadly available and to not require potential investors to demonstrate that they are qualified to invest in a specific product for purposes of receiving an ESG Disclosure Statement.

The Marketing Department is responsible for ensuring that all approved ESG Disclosure Statements are made available to investors. The Director of Marketing has responsibility for ensuring that all ESG Disclosure Statements for institutional investment products are accessible to institutional investors through the firm's institutional investor portal and that all ESG Disclosure Statements for the firm's funds are posted to the Literature section for each fund on the website.

Updating ESG Disclosure Statements

Background:

Investment managers are required to update an ESG Disclosure Statement when:

- changes have been made to the ESG Disclosure Standards or interpretive guidance;
- changes are made to the investment product that affect the information in an ESG Disclosure Statement; or
- a significant error is found in the ESG Disclosure Statement.

When an investment manager has corrected a significant error in an ESG Disclosure Statement, a description of the changes made to the ESG Disclosure Statement to correct the error must be included in the ESG Disclosure Statement for a period of one year.

Sample Policy:

Any changes made to the ESG Disclosure Standards or interpretive guidance will be reviewed by the ESG Disclosure Standards Oversight Committee to determine if the change is significant and requires information in an ESG Disclosure Statement to be updated. Any changes made to the firm's ESG approaches or stewardship activities will be reviewed by the ESG Disclosure Standards Oversight Committee to determine if the change is significant and requires information in an ESG Disclosure Statement to be updated.

To address errors that occur in ESG Disclosure Statements, we have adopted the following policies and procedures.

1. Definition of error

An error is defined as any information required to be disclosed in an ESG Disclosure Statement that is missing or inaccurate. All errors in ESG Disclosure Statements are subject to this Error Correction Policy.

2. Definition of significant error

A significant error is defined as any error in an ESG Disclosure Statement that must be corrected and disclosed in a corrected ESG Disclosure Statement.

3. Definition of significant

An error is significant if the magnitude of the omission or misstatement of the information makes it probable that the judgment of a reasonable person relying on the information would have been changed by the omission or misstatement. Errors that may be considered

insignificant individually may be significant when considered in the aggregate. Significant errors will be corrected immediately.

A description of the significant error will be included in the ESG Disclosure Statement for a minimum of one year.

4. Error review

The ESG Disclosure Standards Oversight Committee is responsible for reviewing all errors. The ESG Disclosure Standards Oversight Committee will discuss the nature of the error and whether any additional procedures need to be implemented to minimize the likelihood that the same type of error reoccurs.

5. Error Incident Report

For all significant errors, a designated ESG Disclosure Standards Oversight Committee member will complete an Error Incident Report and submit this report to the ESG Disclosure Standards Oversight Committee, along with the incorrect ESG Disclosure Statement and the corrected ESG Disclosure Statement. The Error Incident Report will include the following information, as applicable:

- ◆ the affected periods
- ◆ how the error was identified
- ◆ why the error is considered significant
- ◆ steps taken or to be taken to prevent the same type of error from happening again

6. Availability of corrected ESG Disclosure Statements

When a significant error occurs, the Director of Marketing will oversee efforts to make available the corrected ESG Disclosure Statement that includes disclosure of the change resulting from the correction of the significant error. The Director of Marketing has responsibility for ensuring that the relevant institutional marketing materials and fund websites are updated with the corrected ESG Disclosure Statement.

Examination

Background:

Examination is a process by which an independent examination firm tests one or more ESG Disclosure Statements in accordance with the Examination Procedures for the Global ESG Disclosure Standards for Investment Products. If the investment manager has chosen to engage an examiner, it must gain an understanding of how the examiner maintains independence from the investment manager and it must determine that the examiner is independent. An investment

manager's policies and procedures should indicate what steps the investment manager takes to determine if the examiner is independent. The determination of independence is an ongoing process that must be performed in connection with each examination engagement.

Sample Policy:

XYZ Investments aims to obtain examination on each of its ESG Disclosure Statements prior to making the ESG Disclosure Statements available to investors. On an ongoing basis, examinations are updated annually for any ESG Disclosure Statements that have been updated or revised.

XYZ Investments uses Able Examination Services as its examiner. Prior to renewing the contract, we obtain a copy of Able Examination Services' policies for maintaining independence. The Chief Compliance Officer will discuss with the examiner any questions that were raised from reviewing the policies for maintaining independence. In addition, the Chief Compliance Officer will inquire internally to determine whether the examiner performs other services for the firm that could cause an independence issue. The Chief Compliance Officer will report any concerns to the ESG Disclosure Standards Oversight Committee. Additionally, the ESG Disclosure Standards Oversight Committee will review any new or changed relationships that the firm has with the examiner to see if any potential conflicts of interest have been raised.

It is the firm's policy to disclose that an ESG Disclosure Statement has been examined. The firm, therefore, discloses the period for which the ESG Disclosure Statement has been examined and also discloses that the examination report is available upon request. The Marketing Department is responsible for responding to any requests for examination reports.

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