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Delivered By Email: danielle.leclair@morningstar.com

Ms. Danielle LeClair
Chair, The Canadian Investment Funds Standards Committee (CIFSC)

Dear Ms. LeClair:

RE: Proposed Changes to CIFSC Responsible Investment Identification Framework

The Investment Funds Institute of Canada (IFIC) is the voice of Canada's investment funds industry. IFIC brings together approximately 150 organizations, including fund managers, distributors, and industry service organizations, to foster a strong, stable investment sector where investors can realize their financial goals. IFIC operates on a governance framework that gathers member input through working committees. The recommendations of the working committees are submitted to the IFIC Board or board-level committees for direction and approval. This process results in a submission that reflects the input and direction of a broad range of IFIC members.

IFIC appreciates the opportunity to comment on the proposed changes to the CIFSC Responsible Investment Identification Framework (**Revised Framework**). We support changes that further align the Framework with the Revised CSA Staff Notice 81-334 (**CSA Disclosure Guidance**) and the Definitions for Responsible Investment Approaches jointly developed by the CFA Institute, the Global Sustainable Investment Alliance, and the Principles for Responsible Investment (**Global RI Definitions**).

We believe that harmonizing the Framework with revised regulatory guidance and global definitions will best help investors and advisors identify responsible investing funds in Canada and the associated approaches to responsible investment used by these funds.

Please find our comments below for consideration in the development of the final Framework.

Fund Identification

The **Revised Framework** states that 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. IFIC recommends that CIFSC remove references to "CFA Institute's Global ESG Disclosure Standards for Investment Products or other widely accepted disclosure standards," as these are not subject to regulatory standards or oversight as is the prospectus. Including such references risks undermines the robustness of the Framework and could diminish the perceived rigor and credibility of the Framework.

Reference to CFA Institute's Global ESG Disclosure Standards for Investment Products

The Revised Guidance includes references to the CFA Global ESG Disclosure Standards and the CFA's Definitions for Responsible Investment Approaches in the **Scope, Identification,** and **Appendix A** sections of the Framework. While many IFIC members support the CFA Global ESG Disclosure Standards, there is a unanimous view among members that CIFSC should limit its alignment to the **CSA Disclosure Guidance** and the **Global RI Definitions**. Alignment with the CSA is important because provincial and territorial securities regulators are the regulatory bodies in Canada that articulate ESG disclosure expectations and monitor for compliance. Alignment with Global RI Definitions is important because the definitions were developed with a broad set of recognized leaders in the RI space, including, but not limited to the CFA.

Endorsing, promoting, or articulating the CFA Global ESG Disclosure Standards falls beyond the mandate of CIFSC. IFIC and its members also note a potential conflict of interest in CIFSC promoting CFA disclosure standards, given that the CFA is represented as a member of CIFSC.

Proposal to Remove ESG Integration and Evaluation from Scope of the Framework

IFIC recommends maintaining ESG Integration and Evaluation as one of the six recognized approaches to responsible investing in the CIFSC Framework. We believe that removing ESG Integration would be a significant misstep for several reasons:

1. *Alignment with Canadian and Global Standards*: Both the CSA Disclosure Guidance and the Global Definitions include Integration as a recognized approach to responsible investing. The CSA, in its revised guidance, did not exclude ESG integration as a recognized approach to responsible investing, but expanded the ESG Strategy category to include the concept of Limited Consideration funds. The Global Definitions also includes Integration as one of the main recognized approaches to responsible investing.

2. *Potential Investor Confusion*: IFIC is aware that ESG integration has become table stakes for responsible investing and is also widely used with varying degrees of rigor by non-RI fund managers. However, it remains a recognized approach by key stakeholders in the Canadian investment fund marketplace. By removing ESG integration and consequently not aligning with Canadian regulatory standards and global definitions, CIFSC risks causing confusion among market participants, including advisors and investors. IFIC and its members are sympathetic to the argument that as integration becomes more mainstream and less of a differentiator between RI funds and non-RI funds, there may be a need to collectively work to strengthen global definitions or even consider its removal from **Global Definitions** or other industry standards. However, CIFSC should be primarily concerned with alignment with existing standards and regulations. Currently, a significant majority of RI funds flagged by CIFSC (202 out of 251)[1] utilize ESG Integration as a strategy. Removing this category would be potentially misleading to investors by failing to capture one of the most prevalent approaches to ESG and one that is recognized by the CSA and in the Global Definition investment strategies and one that is routinely articulated in fund disclosures.

3. *Consistency*: The CIFSC RI Identification Framework accurately flags funds as RI funds when their investment objectives reference ESG factors, in alignment with the CSA Disclosure Guidance. While the Framework also identifies the specific RI approaches used by these funds, such as ESG integration, these approaches are typically detailed in the investment strategies section of the prospectus rather than the investment objectives section.

[1] As of June 7, 2024.

This distinction is crucial as it reflects how RI approaches are commonly presented in prospectuses.

The CIFSC consultation raises the point that there might be a potential conflict with the CSA Disclosure Guidance or Global Definitions if Integration is reported as an RI strategy without being mentioned in the investment objectives. However, the two elements of the Framework—the identification of RI funds and the classification of their RI strategies—are not inherently conflicting.

Furthermore, CSA conducts due diligence on the affirmations made in the prospectus of RI objective funds, ensuring that any claims about the use of ESG strategies, including ESG Integration, are substantiated. Despite these considerations, the CIFSC consultation notes that OSC staff have not observed any ESG Objective Funds solely using ESG Integration as their strategy. Nonetheless, the CSA Disclosure Guidance does not exclude the possibility that an ESG Objective Fund might use only ESG integration as its ESG strategy.

4. *Prevalence and Importance of ESG Integration*: ESG Integration is widely used by investment teams to manage RI funds. In some cases, it is used to maximize risk-adjusted returns, in other cases, there is an additional objective to create a portfolio with certain predefined ESG characteristics. It is a fundamental approach that often complements other strategies such as screening, best-in-class, or thematic investing. Eliminating it would ignore the reality of current investment practices and create inconsistency. Furthermore, the existence of an ESG Integration category would facilitate the identification of funds that do not incorporate ESG Integration. This is essential for assisting investors who wish to avoid investing in funds that utilize ESG Integration.

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Thank you for this opportunity to provide IFIC's input to CIFSC on this important initiative. Please feel free to contact me by email at ibragg@ific.ca or by phone at 416-309-2325. I would be pleased to provide further information or answer any questions you may have.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

By: Ian Bragg
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