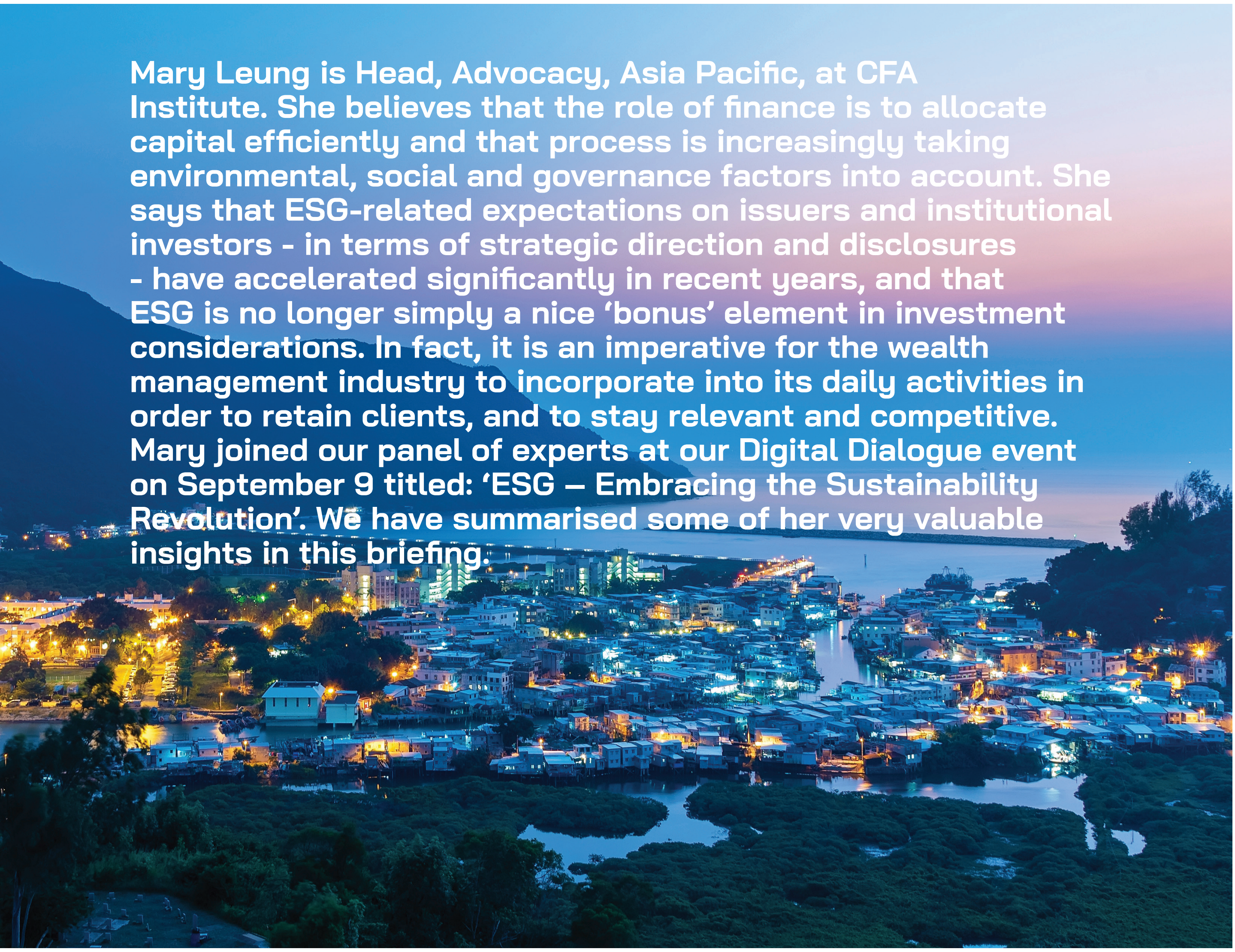
CFA Institute's Mary Leung on the Compelling Reasons to Embrace the ESG Revolution

Mary Leung is Head, Advocacy, Asia Pacific, at CFA Institute. She believes that the role of finance is to allocate capital efficiently and that process is increasingly taking environmental, social and governance factors into account. She says that ESG-related expectations on issuers and institutional investors - in terms of strategic direction and disclosures - have accelerated significantly in recent years, and that ESG is no longer simply a nice 'bonus' element in investment considerations. In fact, it is an imperative for the wealth management industry to incorporate into its daily activities in order to retain clients, and to stay relevant and competitive. Mary joined our panel of experts at our Digital Dialogue event on September 9 titled: 'ESG – Embracing the Sustainability Revolution'. We have summarised some of her very valuable insights in this briefing.



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MARY LEUNG
CFA Institute

It was in May this year that CFA Institute published the Exposure Draft of its voluntary global disclosure standards to provide transparency and comparability of investment products with ESG-related features. CFA Institute is the global association of investment professionals, and the objective was to obtain feedback from the wider investment community prior to publishing the final guidelines, but most importantly the mission was to reinforce the institute's major commitment to sustainability amongst the professionals in the worldwide investment community.

Standard bearer

Mary's colleague, Nick Pollard, Managing Director, Asia Pacific, at CFA Institute, said at the time: "CFA Institute has a long history as an important global standard-setter," Mary reported. "The creation of the ESG Disclosure Standards is another step we are taking toward a global common language for sustainability, as ESG moves into the mainstream of global finance and commerce."

CFA Institute reported that the Exposure Draft considered an ESG-related feature to be any aspect of an investment product's strategy that uses ESG information or addresses ESG issues. Investment managers can apply the Standards regardless of how their investment products are named, labelled, or categorised.

Clarity and transparency

Mary herself also stated at the time of the May release: "Sustainability includes many different issues that are not easily compared. What sets the ESG Disclosure Standards apart from others is that they are suitable for all types of investment vehicles, all asset classes, all ESG strategies, and all markets. We believe the creation of the ESG Disclosure Standards will bring greater clarity and transparency when presenting, identifying, comparing, or discussing products with ESG-related features."

And in the Hubbis event of September 9 she told delegates how, in addition to investment education and training, CFA Institute's commitment to ESG is inextricably bound up in the firm's passionate drive towards improving investor protection and upholding market integrity.

A critical discussion

"Within our investor universe, we believe the whole discussion around ESG and sustainability is critical to the future of the industry itself, especially when so many of our members are involved in the investment management profession, be they in the form of portfolio managers or analysts on the buy side or sell side," she reported. "Accordingly, our focus is really on how investors and asset managers are disclosing or have access to the right information that will allow them to make the right decisions, especially in this day and age when revenue, returns, reputation, and risks are all interlinked."

To help attain these goals, she explained that the institute works very closely with regulators on policies, especially in relation to issue disclosures as well as increasingly on asset manager disclosures.

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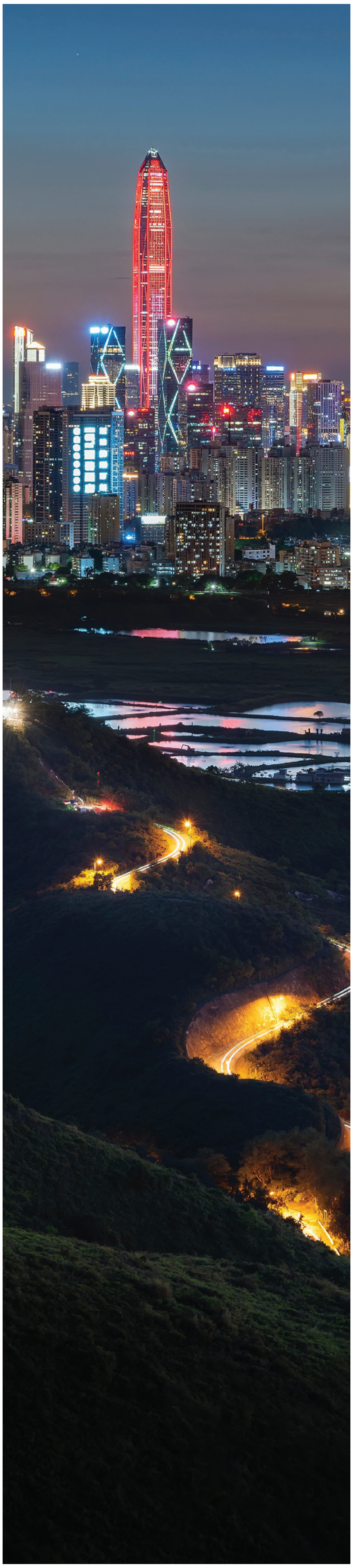
Hand in hand with the regulators

"We are naturally also very keen and enthusiastic about continuing education of the investment profession," she said. "Indeed, we see many of the professionals enthusiastically now travelling on this journey and aspiring to be more knowledgeable in this very important segment. In brief, talent development and continuing professional education are key areas we spend a lot of time on."

She also noted that as the concerns over 'greenwashing' increase, many regulators are intensifying their scrutiny of investment products, and issue disclosures.



In fashion for long to come

"We are also part of a collective effort that will hopefully be helpful in later developing a set of standards that will help asset managers, particularly related to sustainability or the ESG attributes of their investment products," she explained. "But overriding all this, the more and more rapidly our members can upskill for these changes, the better; this is no fad, these issues are here to stay."

Mary expanded on this comment to also address the sceptics out there, noting that while there are many ESG cheerleaders, the limitations of ESG should also be sensibly recognised.

Acknowledging the shortfalls

"We know that a key hindrance is that no two people have the same understanding of what ESG means," she said. "I sometimes joke that it's like the old Chinese proverb where people were blindfolded and they felt different parts of an elephant, and often thought they were touching different parts or different animals. So, we need to be transparent in claims and objectives."

She observed that some products might have robust ESG qualities, and others might more directly help the environment, or communities. In other words, ESG is not one manifestation, and as intermediaries, the investment management community needs to be able to articulate and explain some of these features in ways that are understandable to the clients, because different clients will have different objectives.

Horses for courses

"Some clients may be happy just that ESG is integrated loosely in the product," she commented, "while some may want to go further, and for example, some may actually be prepared to give up some return in order to see more impact. And all this needs to be framed in the larger picture of wealth protection and savings for the future."

Mary also reported that in all the surveys that CFA Institute had conducted globally in the last few years, those polled had consistently said that their lack of ESG integration into their investment process was driven by two key factors.

"We know that clients in APAC are very savvy, and it is only a matter of time that they're going to turn around and demand this of their investment funds and advisors. So, we think now is the best time to be building that track record and building up that capability."

Two key barriers to overcome

"We see two key impediments that they cite," she said. "First, we find that they refer to the lack of real client demand, and secondly, the lack of knowledge. It is the second of these that we can really help with but addressing this will help drive demand."

She said that the lack of know-how is going to be a major recurring feature, especially in Asia-Pacific, and we may think that it is not so vital currently because client demand may not yet be there. "However, we know that clients in APAC are very savvy, and it is only a matter of time that they're going to turn around and demand this of their investment funds and advisors," she said. "So, we think now is the best time to be building that track record and building up that capability."

Education... and more education

She also explained that CFA Institute itself has significant ESG educational resources, but that knowledge must be tailored to specific needs, for example whether the professional is a private banking RM or a portfolio manager or perhaps a sell-side analyst.

"In short, depending on your interests, and depending on where you are in the wealth management and ESG ecosystem, there are different avenues in which you can upskill," she observed. "The most outstanding individuals in this emerging world of ESG investing will be those who have a deep set of knowledge in one particular area, but also have a wide range of knowledge on a number of other things, and the ability to connect the dots."

Seeking disclosures not exposures

Her final word was to reiterate and expand on the issue of greenwashing and the growing focus amongst the regulators to curb excessive claims of ESG compliance. She cited a fairly recent circular from the Hong Kong SFC on what information and how funds should disclose if they want to be called ESG funds.

"This gels with the widely increasing requirements for asset managers to properly disclose their sustainability policies and procedures," she concluded. "Asset managers for so long have been consumers of disclosures by listed companies, and now they're increasingly being asked to make disclosures themselves. And this is consistent with what we are seeing from the EU, with their many rules. I think everyone is going to be on notice, to be honest." ■