Net-zero hour for ESG investing

Corporate disclosures must be relevant, reliable, comparable, timely, and decision-useful to investors

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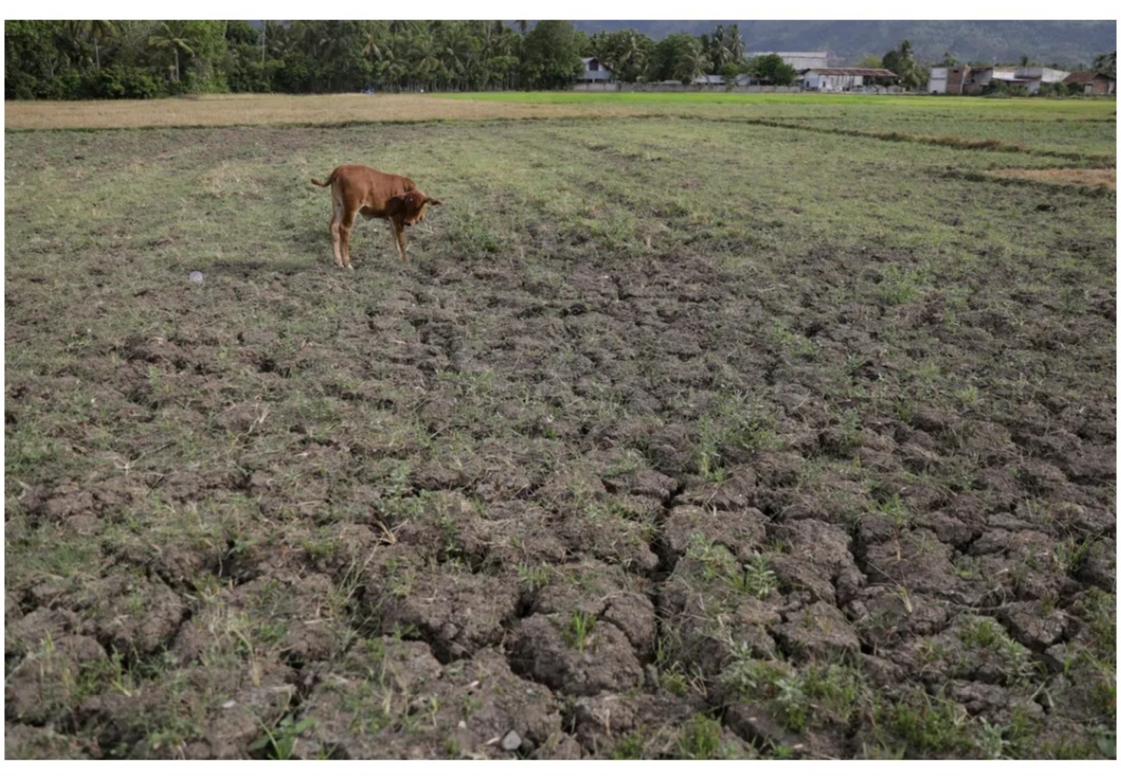

Climate reporting standards should be developed by independent standard setters through a robust process that includes investor representation, technical expertise and protection from external interference. PHOTO: REUTERS

AS THE global association of investment professionals, CFA Institute monitors key debates and evolving developments across the investment industry. In recent years, one significant topic of discussion has been the role and application of environmental, social, and governance (ESG) information in the investment management process.

Today, I am writing about one particular focus area within ESG investing: how net-zero considerations can be incorporated into investment decision-making in a manner consistent with fiduciary duty and clients' directions. CFA Institute recently published its views on net zero, which aim to inform and shape this discussion. Here, I explain the context for our views.

The conversation around net zero is broad. It involves scientists, economists, engineers, and others from a multitude of disciplines who bring unique expertise to bear on this topic. Each group brings a valuable perspective, and CFA Institute is contributing to the net-zero discussion from an investment industry perspective with the aim of bringing clarity around certain issues impacting investors.

Empowering investors

Specifically, CFA Institute seeks to maximise information available to investors so they can make sound investment decisions. Climate-related disclosures are perhaps the most important avenue for investors to obtain material information, and CFA Institute believes that such disclosures must be relevant, reliable, comparable, timely, understandable, and decision-useful to investors.

To achieve this goal, we must have greater standardisation of corporate disclosure requirements to enhance the quality and value of climate-related disclosures. Like other reporting standards, climate reporting standards should be developed by independent standard setters through a robust standard-setting process that includes investor representation, public agenda-setting, due process, sufficient funding, technical expertise, and protections from political and interest-group interference.

The information contained in climate disclosures is only helpful to investors, however, when they can freely incorporate it into their investment decision-making. For this reason, CFA Institute opposes any efforts by legislators or regulators to prohibit investors from considering climate-related information when they invest, as well as any efforts to require investors to consider such information.

CFA Institute firmly supports allowing investors to make portfolio decisions according to their own objectives and values within the bounds of applicable laws and regulations. As the leading professional voice on financial analysis and investor protection for more than 60 years, we suggest that politicians and pundits listen to investors instead of forcing their ideologies upon them. Our priority is to empower investors to make the best financial decisions for themselves, and thus, we advocate that investors have the freedom to decide what information is material and how to use material information in their investment decisions.

The investment industry – and the world – are not standing still. Even as political debates about climate change continue, each year there are more products catering to investors' desire to promote sustainability. Members of the scientific community also state with confidence that there are – and will increasingly continue to be – physical risks to real assets and supply chain disruptions caused by climate change.

It now seems inevitable that the convergence of environmental realities, government policies, consumers' decisions, and transformative technologies will usher in meaningful efforts to mitigate and adapt to climate change. Such a global transition will be uneven across countries and markets. CFA Institute will support participants in the financial sector who wish proactively to use their capital to bring about positive externalities that may be impossible by government action alone.

Moreover, CFA Institute intends to play its own role in net zero. We will equip investment professionals and CFA members with the education, resources, and tools they need to meet the demands of their clients, shareholders, and related stakeholders. Through our certificates, webinars, publications, and the CFA curriculum, we will equip investment professionals with the knowledge needed to understand the environmental challenges the world confronts and how these challenges affect the relative risks of various investment products – not as the only factor to consider, but as one among many factors.

CFA Institute will also use its convening power and the expertise of its diverse, highly informed membership to promote engagement, knowledge sharing, and collaboration on this complex issue. As one example, CFA Institute Research and Policy Center published the research report *Net Zero in the Balance: A Guide to Transformative Industry Thinking*. This report is based on interviews with leading thinkers and investors, and its goal is to provide research, practitioner insights, and tools to understand net-zero investing more fully.

The mission of CFA Institute is to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. Even as the context for this mission changes, we will remain faithful to it.

The writer oversees the strategic direction and leadership of the research, advocacy, and standards function at CFA Institute, where he seeks to position the organisation as an innovator and thought leader in investment management