



CSA Staff Notice 81-334 (Revised) *ESG-Related Investment Fund Disclosure*

**Presentation to Investment Funds
Institute of Canada**

May 2, 2024

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The primary purposes of the Updated Staff Notice are to:

1

Provide further clarity to investment fund managers on our disclosure expectations in certain scenarios that were not expressly addressed in the prior version of CSA Staff Notice 81-334 from January 19, 2022 (the **2022 Staff Notice**)

2

Improve the clarity of ESG-related disclosure and reduce the potential for greenwashing in the disclosure documents and sales communications of investment funds

1

Updates and replaces the 2022 Staff Notice

2

Summarizes the scope and purpose of, and key findings from, ESG-focused reviews of investment funds conducted by CSA staff after the publication of the 2022 Staff Notice

3

Provides updated, relevant and practical guidance for investment funds, particularly ESG-related funds

Purpose of ESG-Focused Reviews

1

Assess whether the disclosure and sales communications of ESG-related funds were consistent with the guidance set out in the 2022 Staff Notice

2

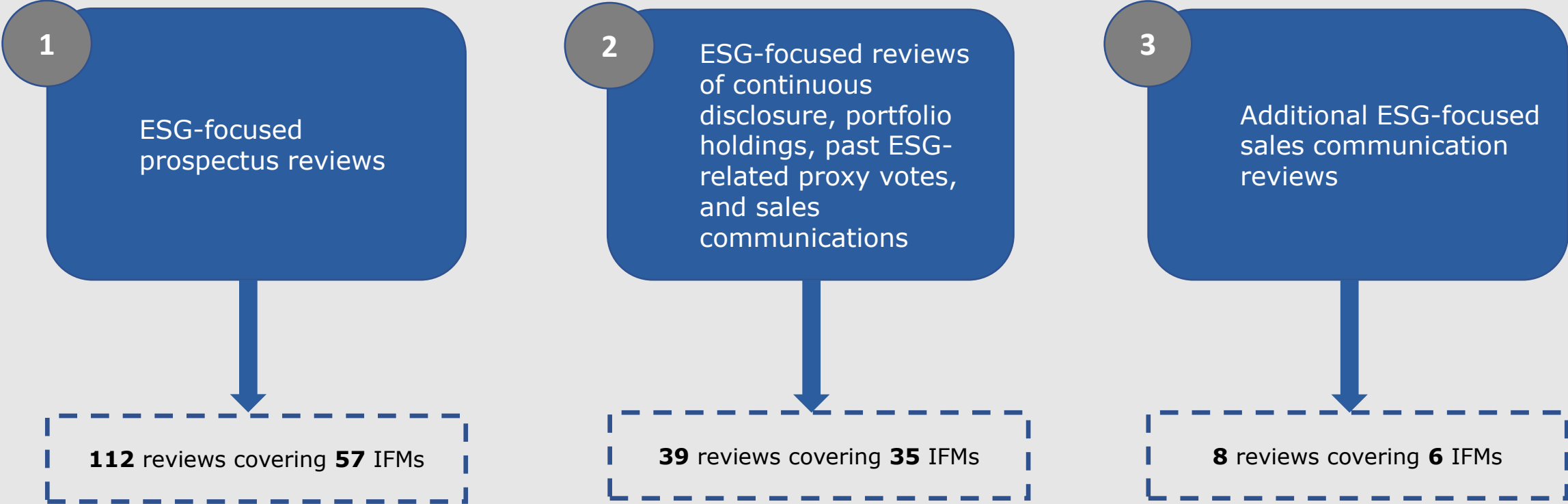
Work with IFMs to improve disclosure and sales communications in order to address potential greenwashing concerns

3

Determine whether further policy work is needed to improve the disclosure and sales communications of ESG-related funds in order to reduce the potential for greenwashing

The findings from the ESG-focused reviews informed the guidance in the Updated Staff Notice.

Overview of ESG-Focused Reviews



Major Updates Compared to the 2022 Staff Notice

1

Inclusion of an explanation of the different levels of disclosure expectations depending on whether the fund is an ESG Strategy Fund or ESG Limited Consideration Fund

2

Inclusion of specific guidance for certain types of funds and funds in certain circumstances

3

Inclusion of a reminder to IFMs about existing requirements relating to written ESG-related policies and procedures

4

Clarification of whether certain ESG-related communications are sales communications, and on the use of disclaimers or explanatory language in sales communications

Types of Funds Covered in the Updated Staff Notice

The 2022 Staff Notice set out disclosure expectations for the following three types of funds:

ESG Funds* (i.e. funds with ESG-related objectives)

ESG Strategy Funds (i.e. funds without ESG objectives but that use ESG strategies)

Non-ESG Funds (i.e. funds that do not have ESG objectives or use ESG strategies)

**For greater clarity, ESG Funds (as defined in the 2022 Staff Notice) are referred to as ESG Objective Funds in the Updated Staff Notice.*



The guidance in the Updated Staff Notice distinguishes between *two sub-groups of ESG Strategy Funds*, depending on the extent to which ESG factors are considered in the investment process:

ESG Strategy Funds: Funds whose investment objectives do not reference ESG factors but that use ESG strategies, where the consideration of ESG factors plays a significant role in their investment process

ESG Limited Consideration Funds: Funds whose investment objectives do not reference ESG factors but that use ESG strategies, where the consideration of ESG factors plays a limited role in their investment process

Types of Funds Covered in the Updated Staff Notice

The need for different guidance for these two types of funds arose because of two key developments that occurred after the publication of the 2022 Staff Notice:

1

Increase in the number of IFMs that included disclosure in their fund prospectuses about the consideration of ESG factors, often without being clear about the extent to which ESG factors are considered by the fund

2

Significant number of statements on the websites of IFMs that suggested that all or most of the IFM's funds consider ESG factors as part of their investment process despite (i) the consideration of ESG factors not being referenced in the investment strategies disclosure in the prospectuses of those funds and (ii) the fact that most such funds only consider ESG factors to a limited extent

These developments raised the greenwashing concern that funds that only consider ESG factors to a limited extent are being marketed in a manner that over-emphasizes the role that ESG plays in the investment process.

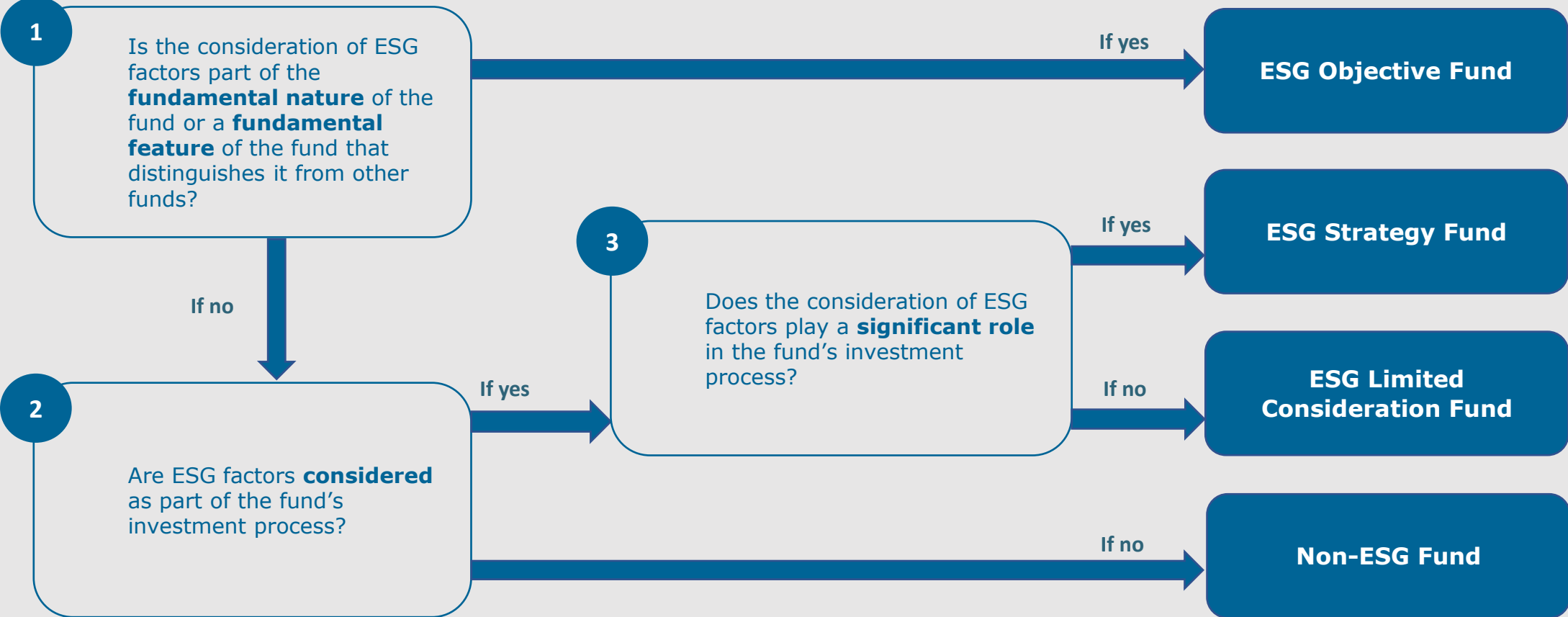
Names and definitions of the four types of funds are only being used in the Updated Staff Notice to explain the different disclosure and sales communications requirements that apply to each type of fund and are not intended to be used as investor-facing labels or classifications in prospectuses, other disclosure documents, or sales communications.

Types of Funds Covered in the Updated Staff Notice

Different levels of disclosure expectations set out in the Updated Staff Notice are based on the following concepts:

- 1 The more significant a role that ESG factors play in the investment process, the more ESG-related disclosure a fund is expected to provide
- 2 The more significant a role that ESG factors play in the investment process, the more ESG-related information a fund may include in its sales communications
- 3 The more limited a role that ESG factors play in the investment process, the less ESG-related information there should be in both the disclosure documents and sales communications of the fund, so as not to over-emphasize the role of ESG considerations in the fund's investment process

Types of Funds Covered in the Updated Staff Notice



ESG Strategy Funds vs. ESG Limited Consideration Funds

	ESG Strategy Funds	ESG Limited Consideration Funds
Prospectus Disclosure	Disclosure about ESG strategies is required.	<p>Disclosure about ESG strategies is optional unless sales communications reference fund's consideration of ESG factors as part of its investment process, in which case it is required.</p> <p>If disclosure about ESG strategies is included in prospectus, the disclosure should clearly explain:</p> <ul style="list-style-type: none"> • the limited role that the consideration of ESG factors and/or use of ESG strategies plays in the fund's investment process, and • whether this approach is specific to the fund in question or whether it is part of the IFM's general process that is applied across all or a segment of its funds
Continuous Disclosure	Disclosure about how composition and changes to the composition of the fund's investment portfolio relate to the funds' ESG strategies is required where such information is material.	
Sales Communications	May include statements in sales communications that accurately reflect the types of ESG strategies used by the fund and the extent to which the fund uses ESG strategies.	<p>May include statements in sales communications regarding the fund's use of ESG strategies as part of its investment process, but such statements should:</p> <ul style="list-style-type: none"> • be clear about the limited role that the consideration of ESG factors plays in the fund's investment process, and • only be included if disclosure relating to the limited role that the consideration of ESG factors plays in the funds' investment process is included in the prospectus

Examples of Prospectus Disclosure for ESG Limited Consideration Funds

1

“The funds that are responsible investment integrated funds indicate in their investment strategies that they may use general ESG integration as part of their investment process. The responsible investment approach that may be used by these funds in the investment process includes consideration of ESG factors along with other factors. However, such ESG factors may play a limited role, and are not necessarily weighted heavily, in the investment decision-making process for these funds.”

2

“The portfolio manager integrates ESG considerations into its investment process, primarily through corporate research...The portfolio manager’s investment team will adjust the target price for an issuer where its research indicates that an ESG issue may have a material impact on the issuer’s fundamentals within the investment forecast horizon. However, ESG factors are not a material component of the Fund’s investment processes and are not currently used as a specific investment strategy for the Fund. ESG factors are just one of many factors considered in the security selection process.”

3

“While the [funds] do not explicitly focus on ESG factors as part of their fundamental investment objectives or principal investment strategies, [the manager] may integrate ESG factors where financially material or relevant into the investment decision-making process. It is up to each individual portfolio manager to determine whether, and to what extent, ESG considerations are to be incorporated into the financial analysis within their own investment processes, and in a manner that aligns with the fundamental investment objectives of each [fund]. As a result, the considerations of ESG factors may play a limited role in the investment decision-making process, meaning that ESG factors are not weighted heavily in the determination of whether to purchase, hold or sell a security in a [fund’s] portfolio.”

