SUSTAINABILITY

POLICY POSITION

CFA Institute
Research & Policy Center

CFA Institute Views on Net Zero

CFA Institute monitors key debates and evolving developments across the investment spectrum, including in sustainable investing. This activity includes the role and application of environmental, social, and governance (ESG) information in the investment management process and how net-zero considerations can be incorporated into investment decision making in a manner consistent with fiduciary duty and clients' directions.

In January 2021, CFA Institute issued its views on the first issue mentioned above—namely, a policy statement to address the growing global focus on ESG integration as it relates to the investment management process and corporate reporting responsibilities.[1] There, we set forth our view that a thorough consideration of ESG factors by investment professionals can improve the fundamental analysis they undertake and, ultimately, the investment choices they make for the benefit of their clients.

In June 2024, we state our approach as it relates to net-zero investing.

Net zero is a potential future state where the net increase—that is, emissions minus removals—in heat-trapping air pollution is zero. For our purposes here, we define net-zero investing as investing with two objectives, generally stated as (1) to attain one's risk and return objectives, whatever those may be, and (2) to work toward—and eventually attain—the global objective of net zero.

With respect to the overall context, we recognize that the issue of net zero is complex and involves many facets of the industry. We also recognize that while the financial sector is only one part of a larger mosaic of how net-zero challenges are being addressed, it is a vital partner to governments, corporations, and public citizens in a collective focus on climate change

[1]CFA Institute, "Positions on Environmental, Social, and Governance Integration" (1 January 2021). https://rpc.cfainstitute.org/policy/positions/positions-on-environmental-social-governance-integration.

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challenges. Climate-related issues involve externalities and financial risks that investors seek to price. These externalities and risks affect different parts of society and markets in different ways. As such, large-scale and structural transitions can potentially be halting, chaotic, and costly. Thus, they call for a systemic and global perspective because of the interconnectedness of markets.

Key challenges related to benchmarks, incentives, and time horizons must be addressed in terms of how they interact with each other to achieve various net-zero goals. Together, these challenges present significant obstacles that hinder the ability of the investment industry to achieve net-zero solutions. Our views recognize these challenges and present our overall approach:

1. Views on Climate-Related Disclosures by Public Companies
2. Views on the Use of Climate-Related Information in the Investment Process
3. Views on Climate Change and Efforts to Mitigate and Adapt to Climate Change

Top-Line Views

Views on Climate-Related Disclosures by Public Companies:

1. **Climate-related disclosures are most effective when they are relevant, reliable, comparable, timely, understandable, and decision-useful to investors assessing climate risks and opportunities.** Today, more and more investors seek issuer-specific, high-quality, climate-related information to inform their investment decisions. Characteristics of high-quality, climate-related disclosures are largely the same as those for financial disclosures, the most important of which are relevance and reliability. In this regard, our experience in climate-related information and net zero shows that a need exists for improvement in standardization (on several levels) to make disclosures more comparable. We also see a need for improving our common taxonomies; enhancing the quality of information disclosures; and enhancing the "signal to noise" ratio in dialogue, performance reporting, and information and data in general.
2. **Climate-related disclosures are most effective when they facilitate an understanding of how such risks and opportunities relate to the information presented in the financial statements of issuers and are assurable.** Climate-related disclosures are more useful to investors when they are linked to financial statements. In addition, assurance by independent professionals with appropriate technical and assurance expertise is important. For both climate-related and financial disclosures, we seek appropriate transparency of the assurance process to investors, beyond a pass/fail opinion, to understand the degree of assurance (i.e., limited versus reasonable). Climate reporting standards should be developed by independent standard setters through a robust standard-setting process that includes investor representation, public agenda setting and due process, sufficient funding, technical expertise, and protections from political and interest group interference.

Views on the Use of Climate-Related Information in the Investment Process:

3. **Climate-related information that an investor deems to be material to an investment decision is a vital consideration.** We recognize that climate-related information is a broad characterization and is inclusive of a wide range of information, from backward-looking, issuer-specific performance to forward-looking projections of global trends. As such, as a general principle, all material information should be considered in an investment decision, regardless of how that information is described or characterized. Investment decision makers are responsible and accountable for determining materiality in the context of the investment objectives and strategy.
4. **Legislators and regulators should neither require investors to consider climate-related information nor prohibit them from doing so.** We do not favor legal or regulatory mandates that prohibit investing in certain sectors or the consideration of relevant nontraditional information (such as climate data) in the investment process—or those that in any way disfavor financial actors that do so. We are also against obstacles and mandates that prohibit investors (or those who invest on behalf of others) from making portfolio decisions according to their own objectives and values within the bounds of applicable laws and regulations.

Views on Climate Change and Efforts to Mitigate and Adapt to Climate Change:

5. **Climate change increases uncertainty and raises the possibility of increased losses for investors.** The scientific community tells us that the climate is moving away from its historically stable baseline. This move presents two types of risks for investors: (a) physical risks, such as damage to real assets, disruption of supply chains, and interruptions in operations; and (b) transition risks, such as changes in government policies, economic incentives, consumer preferences, and technology. Large-scale changes, like climate change, can potentially be halting, chaotic, and costly for investors.
6. **The financial sector has the capacity to play a role in addressing net zero.** Climate issues are global in nature and require globally coordinated governmental action. Because progress may be slow and uneven across global economies, the private sector and civil society can play a role in this area. More specifically, the financial sector can contribute by working with policymakers to inform policy choices, finance efforts aligned with those policy choices, and proactively use capital to achieve those policy choices. Furthermore, the governmental, non-governmental, and private sectors play complementary roles in this area because much public policy relies on private sector implementation. This reliance is the case, in large part, because public funding is likely to be insufficient to meet the challenge. Complementary and coordinated action among all actors is crucial.

7. **CFA Institute has a role to play in net zero.** We intend to support organizations and investment professionals that ***choose*** to focus on net zero. Our role is to equip investment professionals and our members with the education, resources, and tools they need to meet the demands of their clients, shareholders, and related stakeholders. We view our role as providing value through capacity building, engagement, and knowledge creation and sharing.

In terms of direct value creation, we aim to

- build the capacity of the investment profession in this area by researching, curating, and promoting the knowledge, skills, tools, practices, and abilities needed to analyze and act on the financial risks and opportunities of climate change and a transition to a low-carbon economy;
- use the convening power of CFA Institute and access to our diverse and highly informed membership to promote engagement, knowledge sharing, and collaboration on this complex issue; and
- advocate for policies that are conducive to our mission and to end-investors.

CFA Institute Research and Policy Center provides an ideal platform to generate research and thought leadership in this area. Furthermore, it can become a leading medium to curate and offer third-party research and to build tools that provide actionable insights to market practitioners in the area of net zero.

ABOUT THE RESEARCH AND POLICY CENTER

CFA Institute Research and Policy Center brings together CFA Institute expertise along with a diverse, cross-disciplinary community of subject matter experts working collaboratively to address complex problems. It is informed by the perspective of practitioners and the convening power, impartiality, and credibility of CFA Institute, whose mission is to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. For more information, visit https://rpc.cfainstitute.org/en/.

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