

CFA Institute launches ESG manual

BY ROMANA KING

Environmental, social and governance factors, once considered the “fringe issues” of finance, took another step into the mainstream this week when the CFA Institute’s Centre for Financial Market Integrity launched Environmental, Social, and Governance Factors at Listed Companies: A Manual for Investors.

“The manual is to assist investors in understanding how a company deals with environmental, social and governance (ESG) issues,” explained Matthew Orsagh, CFA and senior policy analyst, Centre for Financial Market Integrity. “This is an educational tool – given away for free on our website.”

Kurt Schacht, CFA, managing director of the CFA Institute Centre, expanded by saying that “these topics are now part and parcel of the metrics used by investment professionals to analyze and value the public companies they invest in.” “[This] ESG manual will help clarify and decipher the sparse and inconsistent ESG information provided in the current financial reports coming from companies.”

Orsagh explained that the decision to release this manual came on the heels of the institution’s participation in the UN’s creation and adoption of Respon-

sible Investing Principles (PRI), released in 2006.

“We have 95,000 members worldwide, and we can’t assume that all of them have the same amount of sophistication. That’s where the idea of a baseline manual came from.” Orsagh added that the manual enables all investors to sift through the jargon, learn the different organizations involved with ESG and review a glimpse into these concepts. “It’s then up to the investor to drill down as much as they wish.”

The report, which cites more than 25 academia and brokerage studies dating no earlier than 2002, is an effort to show that non-financial factors do have an impact on a company’s bottom line.

“We compiled a manual on the impact of governance in 2005. Governance covers a lot, but it doesn’t cover the E and S of ESG,” explained Orsagh. “This ESG manual is really a growth out of that project. It’s an effort to determine what other non-financial issues that can’t be found on a balance sheet that investors need to consider.”

As such, this ESG manual cites several statistics about the growth of the ESG importance to investors, including:

- Many large investment firms,

have already implemented dedicated ESG units.

- According to Demystifying Responsible Investment Performance, a 2007 report from the UN, there is a positive correlation between a company’s ESG behaviour and the bottom line.
- Currently, more than 300 global institutions representing over \$13 trillion US have endorsed the PRI.

The simplified case studies under each component of ESG offers advisors an opportunity to appreciate how these non-financial factors affect a company – and how that can affect the bottom line.

“We talk about the risks and responsibilities, which are important. While investors are generally well versed in analyzing a public company’s financial data, they are finding it challenging to understand and incorporate non-financial ESG metrics into their research models,” said Orsagh, who was project manager for the ESG manual. By examining the risks of these issues on the bottom line, a better assessment of the investment can be made.

Orsagh also believes that the manual reflects the global perspective offered by the institute’s advisory board and experts. “This manual is a reflection of what is going on around the world – not just New York [where the CFA Institute is located].”

The manual can be viewed at <http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2008.n2.1> **AER**