

**MEMO# 33717**

August 6, 2021

# **CFA Institute Publishes Exposure Draft of Verification Procedures for ESG Disclosure Standards**

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TO: ICI Members

ICI Global Members

ESG Advisory Group

ESG Task Force

EU ESG Disclosure Regulation Working Group

Global Regulated Funds Committee

Global Regulated Funds Committee - Asia

SEC Rules Committee SUBJECTS: Disclosure

ESG

International/Global RE: CFA Institute Publishes Exposure Draft of Verification Procedures for ESG Disclosure Standards

The CFA Institute has published an Exposure Draft of Verification Procedures for CFA Institute ESG Disclosure Standards for Investment Products (Verification Procedures Exposure Draft).[\[1\]](#) The Verification Procedures Exposure Draft builds on a May 2021 Exposure Draft of CFA Institute Disclosure Standards for Investment Products (CFA Standards Exposure Draft), which would establish voluntary, global industry disclosure requirements for investment products with environmental, social, and governance (ESG)-related features (CFA Standards).[\[2\]](#)

The Verification Procedures Exposure Draft seeks feedback on the proposed verification procedures for the CFA Standards. Comments on the Exposure Draft are due by **September 21, 2021**.

## **Background**

The CFA Standards recommend that investment managers that claim a presentation for a specific investment product complies with the CFA Standards have that presentation verified by an independent third party. The Verification Procedures Exposure Draft sets forth proposed procedures for the verification process.

In its response to the CFA Standards Exposure Draft, ICI asserted its opposition to the adoption of the CFA Standards but also provided comments on the CFA Standards in the event the CFA Institute determined to move forward.<sup>[3]</sup> ICI commented on the recommendation that an investment manager have an independent third party examine the compliant presentation it has prepared. In light of the significant oversight that already exists for regulated funds and their investment advisers, ICI urged the CFA Institute to revise the recommendation to exclude circumstances when an investment product is regulated and already subject to extensive legal requirements and regulatory review and examination. The CFA Institute has not yet finalized the CFA Standards.

## **Summary of Verification Procedures Exposure Draft**

### ***Purpose and Scope***

The CFA Institute states that independent verification is intended to provide an investment manager and investors additional confidence in the investment manager's claim that a particular investment product's presentation has been prepared and presented in compliance with the CFA Standards. An investment manager may choose to have a verification of a specific investment product's compliant presentation conducted by an independent third party. The minimum period for which a verifier may conduct a verification is one year.

The verification must be performed by a qualified, independent third party. Prior to commencing the engagement, the verifier must agree on the terms of the verification with the investment manager.

### ***Required Verification Procedures***

*Planning procedures.* The verifier must consider certain presumptions, including that information obtained from independent third parties provides greater assurance than the same information obtained from the investment manager, and must consider certain matters when designing test procedures, such as the nature and materiality of the information to be tested and the control environment.

*Sample Selection.* Verifiers may use a sampling methodology when performing verification procedures and must consider certain criteria when selecting samples, such as the investment product's ESG-related features.

*Detailed Testing Procedures.* The detailed testing procedures address the following topics:

- Policies and procedures
- False and misleading information
- Recordkeeping
- Compliance notification form
- Objectives including impact objectives
- Investment products with more than one ESG exclusion
- Investment products where financially material ESG information is used alongside traditional financial information in the financial analysis and valuation of the investment product's investments
- Investment products that have portfolio-level criteria based on ESG information or ESG issues
- Investment products with an impact objective

- Investment products with more than one objective
- Benchmarks
- Changes to ESG-related features
- Notification of material changes to ESG-related features
- Stewardship
- Additional information included in the compliant presentation
- Error correction

## **Maintenance of Verifier Information**

The verifier must maintain sufficient documentation of specified items for all verification procedures performed that are necessary to support the verification report.

## **Representation Letter**

At the conclusion of the verification engagement and prior to issuing the verification report, the verifier conducting the verification must obtain written representations signed by the investment manager's management who the verifier believes are responsible for and knowledgeable about the matters covered in the representations.

## **Verification Report**

If verifications are performed on multiple compliant presentations, the verifier may issue a single verification report covering the compliant presentations that have been verified.

## **Recommendation Letter**

After the verification is complete, the verifier should issue a recommendation letter to the investment manager describing specific findings, recommendations, and other areas for improvement arising from the verification.

## **Verifier Independence Guidelines**

The Exposure Draft includes in Appendix C verification independence guidelines to serve as minimum guidance for independence.

## **Questions**

The Exposure Draft seeks feedback on the following questions:

1. Do you agree that the minimum period for which a verification may be conducted should be one year?
2. Are there any other attributes that a verifier should have in order to be qualified?
3. Do you agree with the following testing procedures? If not, please tell us which testing procedures you disagree with as well as the testing procedures you would recommend. Also, are there other areas of testing that should be added?
4. Are the examples of what is and what is not a material change to ESG-related features helpful? If you do not believe they are helpful, do you have suggested examples that should be included?
5. Do you believe that it is appropriate for the compliant presentation to include information that is not subject to the verification? If so, do you believe information in the compliant presentation that is not subject to testing should be required to be identified as not subject to testing?

6. Are the examples of what is and what is not a material error helpful? If you do not believe they are helpful, do you have suggested examples that should be included?
7. Should any other professional guidance be included here?
8. There is no option for allowing a verification report to be issued with a modified conclusion. Do you agree with this approach, or should we allow a verifier to issue a verification report with a modified conclusion? Please provide your rationale.
9. Do you agree with the proposed language for a management assertion? If not, please provide suggested language.
10. Do you agree with the Guiding Principles for Verifier Independence? Should any additional Guiding Principles be added?
11. Are there any other services that could create independence issues that should be included?
12. Should any other issues be included for determining a verifier's independence?

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#### endnotes

[1] The Verification Procedures Exposure Draft is *available at* <https://www.cfainstitute.org/-/media/documents/code/esg-standards/exposedraftverificationprocedurescfainstituteesgdisclosurestandardsforinvestmentproducts.ashx>.

[2] For a summary of the CFA Standards Exposure Draft, see Memorandum No. 33542 (May 20, 2021) , available at <https://www.ici.org/memo33542>.

[3] For a summary of ICI's response to the CFA Standards Exposure Draft, see Memorandum No. 33687 (July 14, 2021), *available at* <https://www.ici.org/memo33687>.