CFA Institute

EXPOSURE DRAFT

VERIFICATION PROCEDURES FOR THE CFA INSTITUTE ESG DISCLOSURE STANDARDS FOR INVESTMENT PRODUCTS

July 2021

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CFA Institute is developing voluntary, global industry standards—the CFA Institute ESG Disclosure Standards for Investment Products (the "Standards")—to establish disclosure requirements for investment products with environmental, social, and governance (ESG)-related features. The purpose of the Standards is to provide greater transparency and consistency in ESG-related disclosures, resulting in clearer communication regarding the ESG-related features of investment products. The goal for this Exposure Draft is to elicit feedback on the proposed verification procedures for the Standards. Please refer to the "Providing Feedback" guidelines for submitting comments. **All comments must be received by 21 September 2021 in order to be considered.**

Providing Feedback

Public commentary on this Exposure Draft will help shape the final version of the Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products, which is expected to be issued in December 2021. Comments should be provided in the designated Response Form and submitted to standards@cfainstitute.org. Questions are included throughout the document. You may address as few or as many of the Exposure Draft's questions as you wish. A complete list of the Exposure Draft questions appears in Appendix E. This Exposure Draft and the designated Response Form are available here on the CFA Institute website.

The deadline for providing feedback is 21 September 2021. **Comments received after 21 September 2021 will not be considered.** Unless otherwise requested, all comments will be posted on the CFA Institute website.

Guidelines for Submission

Comments are most useful when they:

- directly address a specific issue, provision, or question,
- provide a rationale and support for the opinions expressed, and
- suggest alternative solutions in the event of disagreement.

Positive comments are equally as helpful as comments that provide constructive suggestions for improvement.

Requirements for Submission

In order for comments to be considered, please adhere to the following requirements:

- Insert responses to numbered questions in the designated areas of the Response Form.
- Assign a unique file name to your Response Form before submitting.
- Provide all comments in English.
- Submit the Response Form as a Microsoft Word document.

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PREFACE

CFA Institute is developing voluntary, global industry standards—the CFA Institute ESG Disclosure Standards for Investment Products (the "Standards")—in order to establish disclosure requirements for investment products with environmental, social, and governance (ESG)-related features. The purpose of the Standards is to provide greater transparency and consistency in ESG-related disclosures, resulting in clearer communication regarding the ESG-related features of investment products. The goal for this Exposure Draft is to elicit feedback on the proposed verification procedures for the Standards. Please refer to the "Providing Feedback" guidelines for submitting comments. **All comments must be received by 21 September 2021 in order to be considered.**

Please note that the Exposure Draft of the Standards refers to testing of compliant presentations that is performed by a verifier as an examination. After the issuance of the Exposure Draft of the Standards, the ESG Verification Subcommittee determined that the word "examination" would create confusion because it is used differently depending on location of the firms that are expected to conduct these engagements. This document reflects a change from the term "examination" to "verification."

INTRODUCTION

Key Concepts

Key concepts of the Standards that apply to verifiers include the following:

- The Standards recommend that investment managers that claim a presentation for a specific investment product complies with the Standards have that presentation verified by an independent third party. Verification is a process by which an independent verification firm (verifier) performs specific procedures in order to provide assurance on an investment manager's required disclosures for an investment product with ESG-related features, in accordance with the required Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products. Verification provides limited assurance on the design and implementation of the policies and procedures underlying the disclosure of the ESG-related features of an investment product as to whether, in all material respects:
    - the investment manager has prepared and presented the compliant presentation of the investment product in compliance with the Standards, and
    - the investment manager's policies and procedures related to the preparation of the compliant presentation have been designed in compliance with the Standards and have been implemented for the investment product.
- A verifier may conduct an engagement that provides reasonable assurance on the design and implementation of the policies and procedures underlying the disclosure of ESG-related information. A verifier may also conduct an engagement that provides assurance on the operating effectiveness as opposed to design and implementation. These engagements would require testing and reporting that are not addressed herein.
- A verifier must conduct the verification in accordance with the required Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products. These are the minimum procedures that the verifier must perform when conducting a verification.
- The Verification Procedures use the term "verification" as a generic term to describe the testing of a compliant presentation by a verification firm. Verifiers conducting engagements in accordance with the Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products may need to use different terms to describe their engagements. For example, a limited assurance engagement conducted under the International Auditing and Assurance Standards Board's (IAASB's) International Standard on Assurance Engagement (ISAE) guidance might use the term "examination" or "engagement" instead of "verification," whereas an engagement conducted under the American Institute of Certified Public Accountants (AICPA) Statements on Standards for Attestation Engagements (SSAE) guidance might use the term "review." Verifiers may also modify any other language needed to meet professional guidance.

- The minimum period for which a verifier may conduct a verification is one year. If the investment product has been in existence for less than one year, then the verification must cover the period since the inception of the investment product.
- If the verifier concludes that:
  a. the compliant presentation does not comply with the Standards;
  b. the investment manager's policies and procedures related to the preparation of the compliant presentation have not been designed in compliance with the Standards or have not been implemented; or
  c. the investment manager's records cannot support the verification;

  then the verifier must not issue a verification report and must inform the investment manager why a verification report cannot be issued.
- The verifier must be independent from the investment manager. To be independent, there must be no independence issues between the verifier and the investment manager. The verifier must perform its service in an unbiased manner and must not be testing its own work. Guidance for determining verifier independence appears in Appendix C. In addition to being independent, the verifier must be qualified. To be qualified, a verifier must have certain attributes, including having appropriate professional abilities and experience as well as a practical level of expertise regarding audit methodology and investment management practices. The verifier must also be knowledgeable about the Standards, ESG investing, and applicable laws and regulations regarding the presentation of ESG-related disclosures.

Overview

The Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products include the following topics:

- Purpose and Scope of Verification
- Verifier Qualification Requirements
- Agreeing on the Terms of the Engagement
- Required Verification Procedures
- Maintenance of Verifier Documentation
- Representation Letter
- Verification Report
- Recommendation Letter

The Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products also include a glossary for defined terms that appear in small capital letters and sample verification reports.

VERIFICATION

Purpose and Scope of Verification

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 Standards. A VERIFICATION may improve the consistency and quality of INVESTMENT PRODUCT information provided to INVESTORS. A VERIFICATION may result in improved internal policies and procedures as well as marketing advantages for the INVESTMENT MANAGER. A VERIFICATION brings additional credibility to the claim of compliance and supports the overall guiding principles of full disclosure and fair representation of an INVESTMENT PRODUCT.

An INVESTMENT MANAGER may choose to have a VERIFICATION of a specific INVESTMENT PRODUCT's COMPLIANT PRESENTATION conducted by an independent third party. VERIFICATION is a process by which a VERIFICATION firm (verifier) performs specific procedures in order to provide limited assurance about an INVESTMENT MANAGER's COMPLIANT PRESENTATION for an INVESTMENT PRODUCT with ESG-RELATED FEATURES, in accordance with the REQUIRED Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products. VERIFICATION provides limited assurance on whether the INVESTMENT MANAGER's policies and procedures related to the preparation of a COMPLIANT PRESENTATION for a specific INVESTMENT PRODUCT have been designed in compliance with the Standards and have been implemented, as well as whether the INVESTMENT MANAGER has prepared and presented the COMPLIANT PRESENTATION of the INVESTMENT PRODUCT in compliance with the Standards. VERIFICATION is performed over a period of time to provide limited assurance on the design and implementation of the policies and procedures underlying the disclosure of ESG-related information.

The minimum period for which a verifier may conduct a VERIFICATION is one year. If the INVESTMENT PRODUCT has been in existence for less than one year, then the VERIFICATION MUST cover the period since the inception of the INVESTMENT PRODUCT.

Question 1: Do you agree that the minimum period for which a verification may be conducted should be one year?

The VERIFICATION MUST be performed by a qualified, independent third party.

A verifier may conduct an engagement that provides reasonable assurance on the design and implementation of the policies and procedures underlying the preparation and presentation of ESG-related disclosures. A verifier may also conduct an engagement that provides assurance on the operating effectiveness as opposed to design and implementation. These engagements would require testing and reporting that are not addressed herein.

A VERIFICATION is not REQUIRED for an INVESTMENT MANAGER to claim compliance with the Standards for a specific INVESTMENT PRODUCT, but VERIFICATION is RECOMMENDED.

Verifier Qualification Requirements

The VERIFICATION MUST be performed by a qualified independent third party:

- Verifiers MUST have appropriate professional abilities and experience, as well as a practical level of expertise regarding audit methodology and investment management practices, including general knowledge of ESG investing and business processes.
- Verifiers MUST be knowledgeable about the Standards and MUST understand all the REQUIREMENTS and RECOMMENDATIONS of the Standards, including all applicable INTERPRETATIVE GUIDANCE published by CFA Institute and the Standards' governing bodies.
- Verifiers MUST also be knowledgeable about applicable ESG-related laws and regulations regarding ESG-related disclosure REQUIREMENTS.

The verifier MUST be independent from the INVESTMENT MANAGER. See Appendix C for the Verifier Independence Guidelines.

Verifiers are auditing, consulting, and other firms that have a high degree of knowledge regarding the investment management industry. Verifiers MUST follow any applicable professional guidance and standards of practice within their industry when performing a VERIFICATION, including following any applicable regulatory REQUIREMENTS.

Question 2: Are there any other attributes that a verifier should have in order to be qualified?

Agreeing on the Terms of the Engagement

Prior to commencing the engagement, the verifier MUST agree on the terms of the VERIFICATION with the INVESTMENT MANAGER. The agreed-upon terms MUST be specified in an engagement letter or other suitable form of written agreement and MUST include the following:

a. The objective and scope of the engagement, including the period being verified, and that limited assurance is being provided;
b. The verifier's responsibilities;
c. The INVESTMENT MANAGER's responsibilities;
d. A statement about the inherent limitations of a VERIFICATION;
e. A statement that the Standards are the evaluation criteria for the engagement;

f. A statement that the VERIFICATION does not provide assurance on the operating effectiveness of the INVESTMENT MANAGER's controls or policies and procedures for complying with the Standards; and

g. A statement that the INVESTMENT MANAGER agrees to provide the verifier with a representation letter at the conclusion of the VERIFICATION.

The engagement letter SHOULD also include any other terms and conditions relevant to the VERIFICATION.

Required Verification Procedures

A VERIFICATION MUST be conducted in accordance with the REQUIRED Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products. The following are the minimum procedures verifiers MUST perform when conducting a VERIFICATION. Verifiers MUST complete the VERIFICATION in accordance with these procedures prior to issuing a VERIFICATION REPORT to the INVESTMENT MANAGER.

Planning Procedures

The verifier MUST consider the following presumptions:

- Information obtained from independent third parties provides greater assurance than the same information obtained from the INVESTMENT MANAGER;
- Information obtained from the verifier's direct personal knowledge (such as through tangible documentation, observation, computation, operating tests, or inspection) is more persuasive than information obtained indirectly; and
- Information obtained from an INVESTMENT MANAGER with an effective control environment is more reliable than information obtained from an INVESTMENT MANAGER without an effective control environment.

The verifier MUST consider the following matters when designing test procedures:

- The nature and materiality of the information to be tested;
- The control environment (including the extent to which automated and manual processes are used);
- The likelihood of misstatements;
- Knowledge obtained during current and previous engagements;
- The extent to which the information is affected by judgment; and
- Inadequacies in the underlying data.

When conducting a VERIFICATION, the verifier MUST accumulate sufficient evidence and perform sufficient procedures such that the risk of not detecting errors during the VERIFICATION is mitigated to an acceptably low level.

Testing by inquiry on its own is insufficient to satisfy the REQUIRED VERIFICATION procedures when other testing procedures could reasonably be performed (e.g., inspection, observation, or recalculation). Verifiers MUST review sufficient and appropriate supporting documentation when conducting VERIFICATION procedures.

A verifier may choose to rely on the audit and/or internal control work of a qualified and reputable independent third party. In addition, a verifier may choose to rely on other audit and/or internal control work it has provided to the INVESTMENT MANAGER. A verifier may also accept audit and/or internal control work done by another party as part of the basis for the verifier's VERIFICATION REPORT. If the verifier plans to rely on work performed by another party, then the work—including scope, period(s) covered, results of procedures performed, and the other party's qualifications, competency, objectivity, and reputation—MUST be assessed by the verifier when determining whether to place any reliance on such work. Reliance considerations and conclusions MUST be documented by the verifier. The verifier MUST use professional skepticism when deciding whether to place reliance on work performed by another party.

Sample Selection

Verifiers may use a sampling methodology when performing VERIFICATION procedures. The verifier MUST determine not only the appropriate sample size but also whether the sample selected is reasonable considering the INVESTMENT MANAGER'S specific circumstances. The verifier MUST select samples from the entire period(s) being verified, as well as from the entire population of relevant items being verified.

Verifiers MUST consider the following criteria when selecting samples:

- The INVESTMENT PRODUCT'S ESG-RELATED FEATURES;
- Internal control environment at the INVESTMENT MANAGER: For example, reliable internal controls implemented with respect to adherence to the investment objectives of the INVESTMENT PRODUCT whose COMPLIANT PRESENTATION is being verified may provide the verifier with additional comfort that the ESG-RELATED FEATURES disclosed in the COMPLIANT PRESENTATION have been effectively implemented and would justify reducing the sample size;
- Use of IT systems and IT-aided processes: For example, if the IT portfolio management system automatically blocks any trading order to buy securities from excluded industries, this may provide the verifier with increased comfort with respect to the implementation of the ESG EXCLUSION policy and would justify reducing the sample size for testing of EXCLUSIONS;
- Number of periods being verified; and
- The use of external service providers.

This list is not all-inclusive and contains only the minimum criteria that MUST be considered in the selection and evaluation of a sample. Missing or incomplete documents, or the presence of errors, would warrant selecting a larger sample or applying additional VERIFICATION procedures.

Detailed Testing Procedures

The detailed testing procedures need to be performed only for the period for which the verifier has been engaged to conduct the VERIFICATION.

Question 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?

1. Policies and Procedures: Verifiers MUST obtain the INVESTMENT MANAGER's policies and procedures used in establishing and maintaining compliance with the Standards that are relevant to the COMPLIANT PRESENTATION being verified. Verifiers MUST understand the INVESTMENT MANAGER's policies and procedures for establishing and maintaining compliance with all the applicable REQUIREMENTS and adopted RECOMMENDATIONS of the Standards that are relevant to the COMPLIANT PRESENTATION being verified. Verifiers MUST perform sufficient procedures to determine that, with respect to the COMPLIANT PRESENTATION being verified:
    a. The INVESTMENT MANAGER's policies and procedures are consistent with the Standards;
    b. The INVESTMENT MANAGER's policies and procedures are complete, clear, unambiguous, and adequately documented; and
    c. The INVESTMENT MANAGER's policies and procedures are suitably designed to enable the INVESTMENT MANAGER to prepare and present the COMPLIANT PRESENTATION in compliance with the Standards.
2. False or misleading: Verifiers MUST perform sufficient procedures to determine that the COMPLIANT PRESENTATION does not include information that is false or misleading.
3. Recordkeeping: While conducting the REQUIRED testing procedures, verifiers MUST determine whether:
    a. The INVESTMENT MANAGER has captured and maintained the data and information necessary to support all items included in the COMPLIANT PRESENTATION that are subject to the VERIFICATION; and
    b. The data and information are available within a reasonable time frame.
4. Verifiers MUST conduct testing to determine that the INVESTMENT MANAGER has submitted the REQUIRED initial or annual CFA Institute ESG Disclosure Standards for Investment Products COMPLIANCE NOTIFICATION FORM to CFA Institute.

5. Compliant presentations: Verifiers must perform sufficient procedures to determine that:
    a. The compliant presentation includes all of the applicable disclosures required by the Standards;
    b. Disclosures included in the compliant presentation are consistent with the investment manager's records and its policies and procedures, where applicable; and
    c. Any other information included in the compliant presentation beyond the required information is appropriate.
6. Objectives including impact objectives: Verifiers must perform sufficient procedures to determine that the compliant presentation includes all of the investment product's objectives, including the financial objective, any impact objective, and all other types of objectives, and that each objective's description is complete and consistent with supporting information.

    Verifiers must perform the following tests to determine that each objective description is properly stated:
    a. For pooled funds, compare information in the compliant presentation with supporting legal documents, such as a prospectus or offering memo.
    b. For investment products that are based on a grouping of portfolios, obtain an understanding of the grouping of portfolios that are described in the compliant presentation. From that grouping, the verifier must select portfolios to test. The verifier does not need to determine the completeness of the portfolios in that grouping. For portfolios selected for testing, the verifier must compare the objective description in the compliant presentation with a sample of investment management agreements and guidelines, investment policy statements, and other marketing materials.
    c. Review a sample of pooled fund or account holdings reports to determine that the holdings are consistent with the objective description. Verifiers may need to also review other information, such as portfolio analytics and characteristics reports, third-party ratings, etc.
7. For investment products with one or more esg exclusions, verifiers must perform sufficient procedures to determine that the description of the exclusion criteria that are based on esg information or esg issues are included, are properly stated, and are consistent with the investment manager's policies and procedures and supporting documentation. Verifiers must review a sample of account holdings reports to determine that they do not include securities that are excluded based on exclusion criteria.
8. For 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, verifiers must obtain an understanding of how esg information is used to determine if the description is properly stated.

The following are examples of where financially material ESG INFORMATION is used alongside traditional financial information in the financial analysis and valuation of the INVESTMENT PRODUCT's investments, and how a verifier might test this information.

Example Disclosure 1

"In order to more thoroughly assess each security, we supplement our financial analysis with the analysis of material ESG factors. We believe ESG factors are neither fully understood nor fully priced by markets and thus offer additional opportunities to identify security-specific risks and opportunities."

Testing Procedures

- Obtain an understanding of the INVESTMENT MANAGER's policies and procedures for determining what are considered to be material ESG factors;
- Obtain an understanding of how material ESG factors are used to supplement financial analysis and identify security-specific risks and opportunities; and
- Conduct testing to determine that the INVESTMENT MANAGER has properly described its policies and followed those policies.

Example Disclosure 2

"We use several criteria to evaluate the materiality of quantitative and qualitative ESG factors used in our investment process. First, we use the Sustainable Accounting Standards Board's (SASB's) classification of material ESG metrics by industry to identify ESG factors that are financially relevant to a company given its core business operations. We also monitor industry publications and organizations to identify structural trends that may affect ESG factors specific to an industry. Some ESG issues, such as corporate governance, are relevant to all companies. For these issues, we have identified a set of governance-related key performance indicators (KPIs) based on empirical studies of corporate governance and stock price performance. We also consider an issuer's geographic location to identify material ESG factors that may affect the continuity of business operations. Finally, ESG factors are evaluated for financial relevance according to the estimated holding period for each security."

Testing Procedures

- Obtain an understanding of the criteria used by the INVESTMENT MANAGER to evaluate the materiality of quantitative and qualitative ESG factors used in the investment process.
- Select a sample of securities and obtain evidence that the identification of material ESG factors is consistent with the described methodology.

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Example Disclosure 3

"As a manager of multifactor investment products, we rely on statistical techniques to identify correlations between factors and price movements that can lead to alpha generation or risk reduction. Our valuation model integrates a proprietary governance factor alongside momentum, quality, and value factors. Because ESG scores differ among data providers, we conducted a regression of eight governance sub-scores per provider that we believed were likely to affect a company's performance and are widely disclosed by issuers. We regressed the sub-scores against the historical returns of the portfolio's benchmark index. Based on the regression results, we combined statistically robust sub-scores to create a proprietary governance factor that is used in our valuation models."

Testing Procedures

- Obtain an understanding of how the INVESTMENT MANAGER uses statistical techniques and factors for alpha generation or risk reduction.
- Obtain support that shows the INVESTMENT MANAGER conducted regression analysis of the eight GOVERNANCE sub-scores for each data provider against the portfolio BENCHMARK index and that statistically robust sub-scores were combined to create a GOVERNANCE factor.
- Obtain support that shows the INVESTMENT MANAGER used the proprietary GOVERNANCE factor, composed of the eight sub-scores, in the valuation model.
- Select a sample of securities and review support to determine that the INVESTMENT MANAGER is applying the statistical techniques to generate alpha or reduce risk (e.g., how the statistical techniques were applied to securities selected for testing).

Example Disclosure 4

"ESG factors are integrated holistically into the sovereign valuation framework. Countries are assigned a proprietary score (ranging from +10 to –10) that combines traditional sovereign credit analysis and ESG factors. The proprietary scores are used to adjust the sovereign bond valuations either up or down."

Testing Procedures

- Review the INVESTMENT MANAGER's policies and procedures to gain an understanding of how ESG factors and the proprietary scoring system are used to determine bond valuations.
- Obtain evidence of valuation adjustments to sovereign bond valuations on a sample basis to determine that the proprietary scores were used in bond valuation.

9. ESG INFORMATION: Verifiers MUST perform sufficient procedures to determine that the COMPLIANT PRESENTATION includes a description of the sources and types of ESG INFORMATION used in the investment process or STEWARDSHIP ACTIVITIES and that any description is properly stated.

Testing Procedures

- Gain an understanding of the types and sources of ESG INFORMATION used in the investments process or STEWARDSHIP ACTIVITIES.
- Determine that sources and types of ESG INFORMATION used have been properly stated.

10. For INVESTMENT PRODUCTS that have portfolio-level criteria based on ESG INFORMATION or ESG ISSUES, verifiers MUST perform sufficient procedures to determine that all of the portfolio-level criteria that are based on ESG INFORMATION or ESG ISSUES are included and properly described. Verifiers MUST obtain an understanding of the methodology for implementing portfolio-level criteria that are based on ESG INFORMATION or ESG ISSUES to determine if the description of such portfolio-level criteria is properly stated.

The following are examples of portfolio-level criteria based on ESG INFORMATION and how a verifier might test this information.

Example Disclosure 1

"The portfolio invests solely in companies engaged in clean energy transition in the following industries: materials and equipment, production, distribution, and consumption."

Testing Procedures

- Gain an understanding of the criteria used to determine that securities qualify as clean energy transition companies (e.g., does the INVESTMENT MANAGER have a process for identifying clean energy transition companies, or does it rely on a third-party service?).
- Review portfolio holdings reports and reports that identify sector/industry, if not included on the portfolio holdings report, to determine that:
    a. Holdings are consistent with companies identified as being clean energy transition companies; and
    b. Holdings are focused in the materials and equipment, production, distribution, and consumption industries.

Example Disclosure 2

"The Fund seeks to invest at least 80% of its assets in companies that meet at least one of three gender-diversity criteria: (1) The board of directors is more than 25% women; (2) the executive management team is more than 25% women; or (3) the company has a female CEO. The Fund seeks to maintain sector weights neutral to its benchmark."

Testing Procedures

- Obtain an understanding of the criteria used to determine gender diversity.
- Obtain support that demonstrates the percentage of assets that are invested in companies that meet at least one of the three gender-diversity criteria. From this list of securities, select a sample of securities and test that the securities are consistent with the gender diversity criteria. Examples of supporting documents include organizational charts, public documents (such as the company's website), and third-party gender diversity reports.

Example Disclosure 3

"Recognizing the threat climate change poses to our planet and society, the Fund has portfolio-level criteria that strictly limit its carbon footprint and exposure to fossil fuel extraction companies to 80% of the benchmark."

Testing Procedures

- Obtain an understanding of how fossil fuel extraction companies are identified.
- Obtain an understanding of the methodology used to determine a security's carbon footprint.
- Obtain an understanding of the portfolio-level criteria that limit the Fund's carbon footprint and exposure to fossil fuel extraction companies.
- Select a sample of securities to determine that the securities' carbon footprints have been calculated using the methodology.
- Select a sample of portfolio holding reports or other supporting documents to determine whether the criteria have been met during the period being tested. Examples of supporting documents include internal investment research reports, third-party reports, and other analytical reports that relate to the portfolio-level criteria.

11. IMPACT OBJECTIVE: For INVESTMENT PRODUCTS with an IMPACT OBJECTIVE (see Test #6 for testing of the disclosure of the IMPACT OBJECTIVE), the verifier MUST perform sufficient procedures to determine the following:
    a. For INVESTMENT PRODUCTS where the IMPACT OBJECTIVE does not apply to all investments, the description of which investments the IMPACT OBJECTIVE does not apply to is properly stated.
    b. The description of how the INVESTMENT MANAGER intends to achieve the INVESTMENT PRODUCT'S IMPACT OBJECTIVE through the investment management process and STEWARDSHIP ACTIVITIES is properly stated.
    c. The description of the methodology the INVESTMENT MANAGER uses to assess the effect that investments have, or may have, on ENVIRONMENTAL or SOCIAL issues is properly stated.
    d. The description of the process for avoiding, mitigating, or managing adverse effects that the investments have, or may have, on ENVIRONMENTAL or SOCIAL issues is properly stated.
    e. The risks to the achievement of the IMPACT OBJECTIVE are properly stated.

Verifiers are not REQUIRED to test the outcome of IMPACT OBJECTIVES.

Verifiers MUST perform the following tests to determine that information about the IMPACT OBJECTIVE's desired outcome, stakeholders, and target date is properly stated:

a. For pooled funds, compare information in the COMPLIANT PRESENTATION with supporting legal documents, such as a prospectus or offering memo.

b. For groupings of portfolios, the verifier MUST obtain an understanding of the grouping of portfolios that are described in the COMPLIANT PRESENTATION. From that grouping, the verifier MUST select portfolios to test. For portfolios selected for testing, the verifier MUST compare the information in the COMPLIANT PRESENTATION with investment management agreements and guidelines, investment policy statements, ESG policies, or other client communications. The verifier does not need to determine the completeness of the portfolios in the grouping.

Example Disclosure 1

"The Fund seeks to reduce greenhouse gas (GHG) emissions by taking influential positions in a concentrated portfolio of small- to micro-cap companies and engaging with the management of those companies to establish science-based targets for their Scope 1 and Scope 2 GHG emissions consistent with a global warming limit of 1.5°C."

Testing Procedures

- Review supporting legal documents and investment guidelines to determine they are consistent with the objective to reduce GHG emissions by investing in a concentrated portfolio of small- to micro-cap companies.
- Review a sample of holdings reports, transaction reports, and other analytical support (e.g., reports showing market cap, third-party ratings, etc.) that supports concentration levels, market cap, and emissions consistent with IMPACT OBJECTIVE goals.
- Review minutes, proxy voting records, memorandums to file, and emails that support engagement with management on GHG emissions.

12. Multiple objectives: If the INVESTMENT PRODUCT has more than one objective, the verifier MUST perform sufficient procedures to determine that the description of the relationship between the objectives is properly stated. Verifiers MUST obtain an understanding of how objectives are, or may be, unrelated, complementary, or in conflict.

Verifiers MUST:

a. Obtain an understanding of the objectives and whether they are complementary, in conflict, or unrelated; and

b. Determine if the relationship between the objectives is properly stated.

Testing Procedures

- Obtain evidence from the INVESTMENT MANAGER that supports the relationship(s) among the multiple objectives to determine if the description of how the multiple objectives are complementary, in conflict, or unrelated is properly stated.

13. BENCHMARKS: The verifier MUST perform sufficient procedures to determine that:
    a. The description of each BENCHMARK is properly stated.
    b. Each BENCHMARK is not false or misleading. Including an inappropriate BENCHMARK would be misleading.
    c. The description of how the INVESTMENT PRODUCT is compared with external points of reference is properly stated.

For BENCHMARKS for which information is available publicly, verifiers MUST conduct testing to determine that the description of the BENCHMARK is properly stated.

For BENCHMARKS for which information is not available publicly, verifiers MUST obtain an understanding of the BENCHMARK to determine that the description is properly stated.

Verifiers MUST obtain an understanding of why each BENCHMARK has been selected by the INVESTMENT MANAGER for the INVESTMENT PRODUCT to determine that the BENCHMARK is not misleading. For example, it would be misleading to include a large-cap equity BENCHMARK when the strategy invests primarily in small-cap equity securities.

When external points of reference are used for the INVESTMENT PRODUCT, verifiers MUST obtain an understanding of the external points of reference, to determine that the description of the external points of reference is properly stated.

Example Disclosure

"The weighted average carbon intensity of the Fund's holdings (the Fund's 'carbon footprint') is compared with the weighted average carbon intensity of the Fund's benchmark index as measured by tons of CO_2 emissions per $1M of sales."

Testing Procedures

- Review the fund's holdings and supporting documents for carbon intensity measurements, including any calculations.
- Review support for the BENCHMARK's stated weighted average carbon intensity.

14. Changes to ESG-RELATED FEATURES: The verifier MUST perform sufficient procedures to determine that the description of any material changes to the ESG-RELATED FEATURES during the VERIFICATION period are properly stated. The verifier is not REQUIRED to test non-material changes. An example of a non-material change is a change in the definition of fossil fuel from Global Industry Classification Standard (GICS) industry code ABC to a related GICS industry code XYZ, when it is not considered a material change per the INVESTMENT MANAGER's policies and procedures.

Other examples of material and non-material changes to ESG-RELATED FEATURES include the following:

- Material: Adding a new ESG constraint to the FINANCIAL OBJECTIVE that leads to a significant change to the investment process, such as investment research, portfolio construction, trade execution, or performance and risk attribution.
- Material: Changing an ESG BENCHMARK to reflect a change in ESG investment implementation, such as a new net-zero carbon emissions commitment.
- Material: Changing data (e.g., ESG ratings) providers that produce significantly different output from the prior provider.
- Immaterial: Adding a secondary ESG BENCHMARK for illustration purposes if clearly labeled as such.
- Immaterial: Adjusting ESG EXCLUSION criteria at a granular level—for example, changing the revenue threshold that triggers tobacco restriction from 7% to 5%.
- Immaterial: Removing elements of proxy voting policies that are not expected to significantly affect investment outcomes.

Question 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?

Testing Procedures

- Obtain and review the INVESTMENT MANAGER's policies and procedures to gain an understanding of how the INVESTMENT MANAGER determines which changes in ESG-RELATED FEATURES are material.
- Obtain evidence from the INVESTMENT MANAGER that supports the material change in the ESG-RELATED FEATURES to determine if the description of the change is properly stated and is consistent with how the INVESTMENT MANAGER defines materiality in its policies and procedures.

Example Disclosure

"Effective July 202X, the fair value limit on fossil fuel extraction companies was changed from 10% of the fund to 0% of the fund."

Testing Procedures

- Obtain and review the INVESTMENT MANAGER's policies and procedures to gain an understanding of how the INVESTMENT MANAGER determines which changes are material.
- Review a sample of monthly holdings and transactions reports to support the disposition of fossil fuel extraction companies and to determine that the holdings are consistent with a fair value limit of 0% in fossil fuel extraction companies.

15. Notification of material changes to ESG-RELATED FEATURES: Verifiers MUST perform sufficient procedures to determine that the description of how INVESTORS are notified of material changes to the ESG-RELATED FEATURES is properly stated.

Testing Procedures

- Obtain an understanding of how INVESTORS are notified of material changes to the ESG-RELATED FEATURES.
- Obtain evidence from the INVESTMENT MANAGER that supports how INVESTORS are notified of the material change in the ESG-RELATED FEATURES to determine that the description of how INVESTORS are notified of material changes to ESG-RELATED FEATURES is properly stated.
- Obtain evidence from the INVESTMENT MANAGER that demonstrates the INVESTORS were notified of the material change in the ESG-RELATED FEATURES.

16. STEWARDSHIP: Verifiers MUST gain an understating of the INVESTMENT MANAGER'S STEWARDSHIP policies and STEWARDSHIP ACTIVITIES and perform sufficient procedures to determine that:

   a. The summary description of the INVESTMENT MANAGER'S or INVESTMENT PRODUCT'S STEWARDSHIP policies that are relevant to ESG ISSUES are properly stated, including the following:
      - The types of STEWARDSHIP ACTIVITIES that are typically undertaken for the INVESTMENT PRODUCT;
      - Whether the description is properly differentiated by type of investment or asset class, where necessary; and
      - Whether the description properly states it is INVESTMENT PRODUCT–specific or firm-specific.

   b. Any stated STEWARDSHIP ACTIVITIES have been implemented.

   c. The COMPLIANT PRESENTATION includes instructions for how an INVESTOR can obtain a complete and current copy of all of the STEWARDSHIP policies that apply to the INVESTMENT PRODUCT.

   d. The description of the processes, systems, and measures used to undertake and manage the STEWARDSHIP ACTIVITIES is properly stated. Where possible, verifiers MUST agree the description to information included in the INVESTMENT MANAGER'S internal STEWARDSHIP policies and other policies and procedures.

   e. The list of the ESG ISSUES that are typically considered when undertaking STEWARDSHIP ACTIVITIES, as well as the rationale for considering ESG ISSUES when undertaking STEWARDSHIP ACTIVITIES, are properly stated.

   The verifier is not REQUIRED to test the appropriateness of proxy voting processes or engagement activities, nor the outcomes.

Example Disclosure 1

"We subscribe to a proxy voting and engagement monitoring service that issues alerts when a company we own has violated international principles, standards, or norms related to the environment, human rights, or business ethics. For each company and each issue flagged for engagement, we maintain a database of written communication and meetings with management. The database records include the dates of all engagements, copies of written communication, meeting attendees, meeting locations, subjects of discussion, and desired outcomes. Alerts are set up in our system for our engagement team to review each engagement effort quarterly against targeted outcomes and determine recommended next steps as needed. Progress toward desired outcomes is tracked both internally and via our external monitoring service. We also use the service provider's recordkeeping system to maintain a log of all proxy votes cast, searchable by date and topic."

Testing Procedures

- Determine that the description of STEWARDSHIP policies and procedures is consistent with the INVESTMENT MANAGER'S STEWARDSHIP policies and procedures.
- Select a sample of alerts from the monitoring service and compare them with the database records.
- Obtain evidence of alerts when a company has violated international principles, standards, or norms related to the environment, human rights, or business ethics.
- Obtain evidence of engagement through engagement reports, written communications, memorandums, meeting notes, proxy voting records, or other support that documents where violations have occurred.

Example Disclosure 2

"Climate change can present both risks and opportunities, and we regularly examine how climate change may affect an investee's operations and financial performance. We vote proxies and engage with management in line with our views on the relevant climate-related risks and opportunities that may affect the investee. Additionally, in our engagements with investee companies we routinely advocate for greater and more consistent disclosure of ESG factors that we have deemed to be financially material."

Testing Procedures

- Compare the description of STEWARDSHIP policies and procedures with the INVESTMENT MANAGER'S STEWARDSHIP policies and procedures.
- Obtain evidence to determine that the INVESTMENT MANAGER or its third-party proxy voting service has voted in line with its views on climate-related risks and opportunities and, if the INVESTMENT MANAGER states that it has had X number of meetings with an issuer, that the INVESTMENT MANAGER has support for those meetings.

Example Disclosure 3

"Sovereign engagement differs from other asset classes, in particular for equities. Although sovereign investors do not have voting rights, engagement is still undertaken to understand their funding requirements, clarify reform progress, fulfill commitments to sustainability pledges, and understand the monetary and/or fiscal policies of a country. Engagement is undertaken individually with stakeholders and non-stakeholders, as well as collaboratively with multiple stakeholders and non-stakeholders. An engagement report is published quarterly."

Testing Procedures

- Review the INVESTMENT MANAGER's engagement policy, internal notes, and quarterly engagement report to determine that engagement efforts are consistent with the stated efforts.

17. Additional information included in the COMPLIANT PRESENTATION: If the COMPLIANT PRESENTATION includes information beyond what is REQUIRED by the Standards, the INVESTMENT MANAGER and verifier MUST decide if information beyond what is REQUIRED is subject to the VERIFICATION and, if so, they MUST agree on what will be tested and what will not be tested.

Question 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?

18. Error correction: Verifiers MUST gain an understanding of errors that have occurred in COMPLIANT PRESENTATIONS, how they were identified, and how they affect the period(s) being verified. If errors have occurred, verifiers MUST select errors for testing and perform sufficient procedures to determine that:
    - i. The errors have been treated in accordance with the INVESTMENT MANAGER's error correction policies and procedures.
    - ii. The INVESTMENT MANAGER kept a log of MATERIAL ERRORS found in COMPLIANT PRESENTATIONS and the actions taken to correct them.
    - iii. For MATERIAL ERRORS, the INVESTMENT MANAGER has made every reasonable effort to provide the corrected COMPLIANT PRESENTATION, along with an explanation of the error, to any INVESTOR who received the COMPLIANT PRESENTATION that had the MATERIAL ERROR.
    - iv. For MATERIAL ERRORS, the INVESTMENT MANAGER has provided the corrected COMPLIANT PRESENTATION, along with an explanation of the error, to the current verifier and any former verifiers that verified the COMPLIANT PRESENTATION that had the MATERIAL ERROR.

Generally, an error is material if the magnitude of the omission or misstatement of the information, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed by the omission or misstatement. Examples of errors and whether they SHOULD be considered material or not include the following:

- Any missing REQUIRED disclosure would likely be a MATERIAL ERROR.
- A disclosure that does not apply to the current INVESTMENT PRODUCT would likely be a MATERIAL ERROR.
- A disclosure stating that the INVESTMENT PRODUCT invests only in countries with a carbon intensity below 650 tons of CO_2 equivalent per millions of GDP when it actually invests in countries below 950 tons of CO_2 equivalent per millions of GDP would likely be a MATERIAL ERROR because it would change the investable universe.
- An incorrect INCEPTION DATE (e.g., the INCEPTION DATE of June 2015 should have been May 2015) would likely be an immaterial error as long as the time between the correct and incorrect INCEPTION DATES is not long.

Question 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?

Maintenance of Verifier Documentation

The verifier MUST maintain sufficient documentation of the following items for all VERIFICATION procedures performed that are necessary to support the VERIFICATION REPORT:

a. The nature, timing, and extent of all procedures performed, including planning procedures, sample size rationale, sample selections, and testing procedures applied;
b. The results of all procedures performed, and the evidence obtained;
c. Significant findings or issues arising during the VERIFICATION, the conclusions reached thereon, and any significant professional judgments made in reaching those conclusions; and
d. Supporting evidence that the verifier has conducted all REQUIRED VERIFICATION procedures.

Representation Letter[1]

At the conclusion of the VERIFICATION engagement and prior to issuing the VERIFICATION REPORT, the verifier conducting the VERIFICATION MUST obtain written representations signed

[1]Words in small capital letters are defined terms that can be found in the Glossary. These terms are not expected to be in small capital letters when included in a representation letter.

by the INVESTMENT MANAGER's management who the verifier believes are responsible for and knowledgeable about the matters covered in the representations.

The representation letter MUST include the following matters:

- The INVESTMENT MANAGER complies with the Standards for all periods being verified;
- The INVESTMENT MANAGER's policies and procedures for establishing and maintaining compliance with the Standards are properly described in those policies and procedures;
- The INVESTMENT MANAGER's policies and procedures for complying with the Standards have been designed in compliance with the Standards and have been implemented on an INVESTMENT PRODUCT basis for all periods being verified;
- The INVESTMENT MANAGER has prepared and presented the COMPLIANT PRESENTATION in compliance with the Standards;
- The INVESTMENT MANAGER's management bears all responsibility for maintaining compliance with the Standards, including production and distribution of the COMPLIANT PRESENTATION;
- The COMPLIANT PRESENTATION is a fair representation of the INVESTMENT PRODUCT;
- The INVESTMENT MANAGER has not knowingly included information in the INVESTMENT PRODUCT's COMPLIANT PRESENTATION that is false or misleading;
- To the best of the INVESTMENT MANAGER's knowledge and belief, there has been no:
    - fraud or alleged fraud involving management or employees who have significant roles in the INVESTMENT MANAGER's policies and procedures relating to compliance with the Standards, or
    - fraud or alleged fraud involving others that could have a material effect on the INVESTMENT MANAGER's compliance with the Standards;
- The INVESTMENT MANAGER has provided the verifier with all necessary documents to enable the verifier to perform the VERIFICATION, and no relevant documents have been withheld;
- The period(s) on which the verifier is reporting;
- The INVESTMENT MANAGER complies with all applicable laws and regulations regarding the ESG-related disclosures for the INVESTMENT PRODUCT's COMPLIANT PRESENTATION being verified;
- No events that would materially influence the outcome of the VERIFICATION have occurred up to the date of the representation letter; and
- All known matters contradicting the subject matter and any communication from regulatory agencies or others affecting the subject matter have been disclosed to the verifier, including communications received between the end of the period covered by the VERIFICATION and the date of the VERIFICATION REPORT.

The representation letter SHOULD also include any other relevant representations made to the verifier during the VERIFICATION.

If the VERIFICATION REPORT is assertion-based, as reflected in Appendix B, the REQUIRED items in the management representation letter will need to be modified accordingly.

Verification Report[2]

If VERIFICATIONS are performed on multiple COMPLIANT PRESENTATIONS, the verifier may issue a single VERIFICATION REPORT covering the COMPLIANT PRESENTATIONS that have been verified. The COMPLIANT PRESENTATIONS that have been verified MUST be included in or attached to the VERIFICATION REPORT.

1) For a COMPLIANT PRESENTATION, the VERIFICATION REPORT MUST conclude that:
   - For the periods for which the VERIFICATION has been performed, nothing has come to the verifier's attention that causes the verifier to believe that the INVESTMENT MANAGER has not, in all material respects:
     - Prepared and presented the COMPLIANT PRESENTATION in compliance with the CFA Institute ESG Disclosure Standards for Investment Products; and
     - Designed policies and procedures related to the preparation of the COMPLIANT PRESENTATION in compliance with the CFA Institute ESG Disclosure Standards for Investment Products and implemented those policies and procedures for the relevant periods.

   The following information is also REQUIRED to be included in the VERIFICATION REPORT:
   - The report title, which MUST include the word "independent";
   - The report date;
   - The report addressee;
   - The INVESTMENT MANAGER for which the VERIFICATION has been performed;
   - The periods for which the VERIFICATION has been performed;
   - The respective responsibilities of the INVESTMENT MANAGER's management and of the verifier, including a statement acknowledging the INVESTMENT MANAGER's responsibility for the claim of compliance, for design and implementation of the relevant policies and procedures, and for the COMPLIANT PRESENTATION;
   - The name of the INVESTMENT PRODUCT whose COMPLIANT PRESENTATION has been verified;
   - A statement indicating that the VERIFICATION of the specified INVESTMENT PRODUCT and its associated COMPLIANT PRESENTATION has been performed in accordance with the REQUIRED Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products;

[2]Words in small capital letters are defined terms that can be found in the Glossary. These terms are not expected to be in small capital letters when included in a VERIFICATION REPORT.

- A statement to the effect that the procedures performed in a limited assurance engagement vary in nature and timing from, and are substantially less in extent than for, a reasonable assurance engagement;
- A statement indicating that the VERIFICATION includes testing performed on a sample basis;
- Language indicating that the verifier is independent from the INVESTMENT MANAGER;
- A statement indicating that the VERIFICATION does not cover any presented information that is not REQUIRED to be included in the COMPLIANT PRESENTATION, if applicable;
- A statement describing any other professional guidance that has been applied (e.g., AICPA, IAASB, ICAEW, IASC, or JICPA guidance); and

Question 7: Should any other professional guidance be included here?

- The signature or official seal of the verifier.

In addition to the REQUIRED content, the VERIFICATION REPORT may also include other information, as appropriate.

If the VERIFICATION REPORT is assertion-based, as reflected in Appendix B, the items REQUIRED to be included in the VERIFICATION REPORT will need to be modified accordingly.

2) After completing the VERIFICATION procedures, the verifier may conclude that the COMPLIANT PRESENTATION does not comply with the Standards; or that the INVESTMENT MANAGER's policies and procedures related to the preparation of the COMPLIANT PRESENTATION have not been designed in compliance with the Standards or have not been implemented; or that the INVESTMENT MANAGER's records cannot support the VERIFICATION. In such situations, the verifier and the INVESTMENT MANAGER MUST consider the effect of the verifier's inability to issue the VERIFICATION REPORT on the INVESTMENT MANAGER's claim of compliance with the Standards, and the verifier MUST NOT issue a VERIFICATION REPORT. When a VERIFICATION REPORT cannot be issued, the verifier MUST inform the INVESTMENT MANAGER why a VERIFICATION REPORT cannot be issued.
3) The INVESTMENT MANAGER MUST NOT state that a COMPLIANT PRESENTATION has been verified unless a VERIFICATION REPORT has been issued.

Question 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.

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.

EFFECTIVE DATE

Verifiers MUST conduct all VERIFICATION engagements in accordance with the Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products.

GLOSSARY

BENCHMARK	A point of reference against which an INVESTMENT PRODUCT's return or risk is compared.
COMPLIANCE NOTIFICATION FORM	The form REQUIRED to be filed with CFA Institute by an INVESTMENT MANAGER to notify CFA Institute of the INVESTMENT MANAGER's use of the CFA Institute ESG Disclosure Standards for Investment Products.
COMPLIANT PRESENTATION	A presentation for an INVESTMENT PRODUCT that contains all the information REQUIRED by the CFA Institute ESG Disclosure Standards for Investment Products.
ENVIRONMENTAL	Relating to the quality and functioning of the natural environment and natural systems.
ESG	Abbreviation for "ENVIRONMENTAL, SOCIAL, or GOVERNANCE."
ESG INFORMATION	ENVIRONMENTAL, SOCIAL, or GOVERNANCE information used in an INVESTMENT PRODUCT's investment process or STEWARDSHIP ACTIVITIES, including but not limited to observations, measurements, statistics, estimates, forecasts, model scores, ratings, and analyses.
ESG ISSUE	An important ENVIRONMENTAL, SOCIAL, or GOVERNANCE challenge, concern, or matter.
ESG-RELATED FEATURE	Any aspect of an INVESTMENT PRODUCT's design or implementation, including but not limited to objectives, metrics, BENCHMARKS, constraints, policies, investment process, STEWARDSHIP ACTIVITIES, and client reporting, that uses ESG INFORMATION or intentionally addresses ESG ISSUES.
EXCLUSION	A binding prohibition on the ownership of certain investments.
FINANCIAL OBJECTIVE	An objective to store value or create a future financial benefit through the buying, selling, or ownership of investments.
GOVERNANCE	Relating to the policies and procedures used to direct, control, and monitor companies and other investee entities.
IMPACT OBJECTIVE	An intention to make a specific, positive, measurable contribution to an ENVIRONMENTAL or SOCIAL issue.

(continued)

INCEPTION DATE The initial date of an INVESTMENT PRODUCT's track record of investment performance.

INTERPRETATIVE GUIDANCE Interpretative and explanatory materials related to the CFA Institute ESG Disclosure Standards for Investment Products issued by CFA Institute and the CFA Institute ESG Disclosure Standards for Investment Products' governing bodies, including but not limited to guidance statements, interpretations, and Q&As.

INVESTMENT MANAGER An organization that manages an INVESTMENT PRODUCT.

INVESTMENT PRODUCT A vehicle managed by an INVESTMENT MANAGER that uses an INVESTOR's capital to buy, sell, and hold investments for the benefit of the INVESTOR, including but not limited to the following:

- An investment company, corporation, trust, or other vehicle that allows INVESTORS the ability to pool their capital and invest it collectively ("pooled funds")—such as open-end and closed-end mutual funds, unit investment trusts, exchange-traded funds (ETFs), Undertakings for Collective Investment in Transferable Securities (UCITS), Société d'investissement à Capital Variable (SICAV funds), as well as certain hedge funds, real estate funds, private equity funds, private debt funds, and pension funds.
- A contract between an INVESTOR and an INVESTMENT MANAGER—such as certain insurance-based INVESTMENT PRODUCTS and pension products.
- A limited partnership in which INVESTORS are limited partners and the INVESTMENT MANAGER is the general partner—such as certain hedge funds, real estate funds, and private equity funds.
- An investment strategy by which individually owned accounts are managed.

A vehicle offered by an INVESTMENT MANAGER that is wholly or partially sub-advised is considered an INVESTMENT PRODUCT of that INVESTMENT MANAGER, provided that the INVESTMENT MANAGER has discretion over the selection of the sub-advisor.

Note: The definition of INVESTMENT PRODUCT excludes certain types of financial products, including demand deposit accounts (e.g., checking and saving accounts), brokerage accounts in which clients direct their own trading activity, and all types of property and liability insurance.

INVESTOR	Any person or entity that currently invests in, or that has expressed interest and is qualified to invest in, an INVESTMENT PRODUCT. *Note: The definition of INVESTOR includes retail investors, wealth management clients, and institutional investors. Investment consultants and other third parties are considered to be INVESTORS if they represent individuals or entities that are INVESTORS.*
MATERIAL ERROR	An error in a COMPLIANT PRESENTATION that MUST be corrected and explained.
MUST	A provision, task, or action that is mandatory or REQUIRED to be followed. (See "REQUIRE/REQUIREMENT.")
MUST NOT	A task or action that is forbidden or prohibited.
or	*Note: Although not a defined term, the use of the word "or" is inclusive and means "X, or Y, or both" and "X, or Y, or Z, or some combination thereof." The use of "either…or" is exclusive and means "X or Y, but not both."*
RECOMMEND/ RECOMMENDATION	A suggested provision, task, or action that SHOULD be followed or performed. A RECOMMENDATION is considered to be best practice but is not a REQUIREMENT. (See "SHOULD.")
REQUIRE/REQUIREMENT	A provision, task, or action that MUST be followed or performed. (See "MUST.")
SHOULD	A provision, task, or action that is RECOMMENDED to be followed or performed and is considered to be best practice but is not REQUIRED.
SOCIAL	Relating to the rights, well-being, and interests of people, communities, and society.
STEWARDSHIP	The responsibility of an INVESTMENT MANAGER to protect and enhance the value of an INVESTMENT PRODUCT's holdings and to advance an INVESTMENT PRODUCT's objectives through the exercise of rights or position of ownership, to the extent the INVESTMENT MANAGER is authorized to do so.

(continued)

STEWARDSHIP ACTIVITY

An activity undertaken on behalf of INVESTORS for the purpose of putting STEWARDSHIP into effect, including but not limited to:

- participation in a shareholder meeting,
- casting, abstaining, or withholding a vote on a management or shareholder resolution,
- filing a shareholder resolution,
- commencement, continuation, modification, or discontinuation of an engagement with an investee company,
- collaboration with other shareholders or bondholders,
- enforcement of covenants,
- exercise of warrants or embedded options,
- lending of securities,
- taking a seat on the board of directors of an investee company,
- hiring, firing, and directing the management of an investee company,
- maintenance and improvement of real estate and physical assets,
- advocating for strong ENVIRONMENTAL, SOCIAL, or GOVERNANCE practices, and
- stating a position or advocating for or against public policies or proposals that affect, or may affect, the INVESTMENT PRODUCT.

VERIFICATION

A process by which a VERIFICATION firm tests one or more COMPLIANT PRESENTATIONS in accordance with the REQUIRED Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products.

VERIFICATION REPORT

A report issued by an independent verifier after a VERIFICATION has been performed.

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APPENDIX A: SAMPLE INDEPENDENT VERIFIER'S CFA INSTITUTE ESG DISCLOSURE STANDARDS FOR INVESTMENT PRODUCTS VERIFICATION REPORT (REPORTING DIRECTLY ON THE SUBJECT MATTER)

Independent Verification Report

Ava Advisors
One Squirrel Street
Uetikon
Switzerland

We have verified whether Ava Advisors ("the Investment Manager") has, for the period from 31 March 2018 through 31 March 2021, prepared and presented the accompanying presentation of Sustainable Growth and Income Fund, and designed and implemented the related policies and procedures, in compliance with the CFA Institute ESG Disclosure Standards for Investment Products (the "Standards").

The Investment Manager's management is responsible for its claim of compliance with the Standards, the design and implementation of its policies and procedures, and for the accompanying Sustainable Growth and Income Fund's compliant presentation. Our responsibilities are to be independent from the Investment Manager and to express a limited assurance conclusion based on our verification. We conducted this verification in accordance with the required Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products, which includes testing performed on a sample basis. We also conducted such other procedures as we considered necessary in the circumstances.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and, consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. We believe that our procedures provide a reasonable basis for our conclusion.

Based on the procedures performed and evidence obtained, for the periods from 31 March 2018 through 31 March 2021, nothing has come to our attention that causes us to believe that the Investment Manager has not, in all material respects:

- Prepared and presented the accompanying compliant presentation of the Sustainable Growth and Income Fund in compliance with the Standards; and
- Designed policies and procedures related to the preparation of the compliant presentation of the Sustainable Growth and Income Fund in compliance with the Standards and implemented those policies and procedures.

We have not been engaged to verify, and did not verify, the carbon intensity metrics presented in the accompanying presentation of the Sustainable Growth and Income Fund as additional information, and, accordingly, we express no conclusion on those statistics.

XYZ Verifier
14 May 2021

ESG Disclosures for the Sustainable Growth and Income Fund

AVA Advisors
As of 31 March 2021

AVA Advisors has prepared and presented the following information in compliance with the CFA Institute ESG Disclosure Standards for Investment Products. The information presented for the Sustainable Growth and Income Fund (the "Fund") has been independently verified for the periods from 31 March 2018 through 31 March 2021. The verification report is available upon request. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Inception Date and Changes: The Fund's inception date is 31 March 2018. There have been no material changes to the Fund's ESG-related features since the inception of the Fund. If a material change were to be made to the Fund's ESG-related features, investors in the Fund would be notified 30 days in advance by email or letter, depending on the investor's communication preferences.

Objectives: The Fund seeks capital appreciation and income by investing in undervalued or reasonably priced large- and mid-cap companies and investment-grade bonds. Additionally, the Fund seeks to have favorable environmental characteristics by maintaining a 20% lower weighted average carbon intensity (as measured by Scope 1 and Scope 2 metric tons of CO_2 emissions per $1M revenues) relative to its benchmark, excluding securities with below-average environmental scores, and seeking to invest 20% of its fixed-income portfolio in labeled green bonds and Certified Climate Bonds. The supply of labeled green bonds and Certified Climate Bonds may be limited at times, and there is a risk that the Fund cannot meet this objective at certain times.

Benchmark: The Fund's benchmark is a blended benchmark consisting of 70% MSCI World Index/30% Bloomberg Barclays Global Aggregate Corporate Bond Index. The benchmark is used as a point of comparison for both the performance and the weighted average carbon intensity of the Fund. Information on the indexes used to construct the Fund's benchmarks can be found on the index provider websites.

Types of Investments: The Fund invests in fixed-income, equity, and money market securities. Its strategic asset allocation is 70% equities and 30% fixed income. Money market securities are primarily used for liquidity and typically constitute less than 5% of the Fund's market value. The information in this presentation pertains to the fixed-income and equity holdings of the Fund only.

ESG Data: The Fund subscribes to two ESG ratings and research service providers that assign environmental scores to issuers within the Fund's equity and fixed-income universes and that provide Scope 1 and Scope 2 carbon emissions data. The service providers determine these scores based on a number of underlying factors. The two ESG data providers provide environmental scores that cover nearly 100% of our equity and bond universes. Therefore, we do not invest in companies or issuers that do not have an environmental score.

AVA Advisors considers one service provider to be the primary provider and the other to be the secondary provider. Data and scores that differ substantially between the two providers are evaluated on a qualitative and quantitative basis by our internal sustainability analysts using research drawn from issuer reports, publications, and regulatory filings, as well as industry research sources. AVA Advisors makes the final determination as to which provider's score will be used and whether or not to adjust the scores provided. Analysts and portfolio managers receive ongoing alerts from our ESG data providers when a company or issuer ESG score changes. These changes are reviewed during weekly portfolio management team meetings.

Security Selection: To achieve the objective of investing in securities that have more favorable environmental characteristics, companies and issuers that have an environmental score in the bottom 50% of their industry-based peer group are excluded from our security selection universe. Equity securities that score in the top 50% are then screened for financial criteria including but not limited to thresholds for earnings growth estimates and price-to-earnings ratios. Fixed-income securities are screened for financial criteria including but not limited to credit quality and metrics and relative value.

Portfolio Construction: After the security selection criteria are applied, the remaining securities are evaluated based on their weighted average carbon intensity compared with the weighted average carbon intensity of their industry-based peer group. To simultaneously achieve the Fund's financial objective and its objective to maintain a 20% lower weighted average carbon intensity, companies with the most attractive valuations and lower carbon intensity relative to industry peers are prioritized within each sector. If the resulting portfolio does not meet the binding criteria for a 20% lower weighted average carbon intensity relative to the benchmark, adjustments in weightings or holdings are made to limit the Fund's weighted average carbon intensity to 80% of that of the benchmark. The Fund's carbon intensity relative to its benchmark is reported quarterly on the firm's **website**.

In addition, the Fund strives to invest at least 20% of its fixed-income holdings in a diversified portfolio of labeled green bonds and Certified Climate Bonds. Because the supply of these bonds can be limited, the Fund's weighting in these securities may fall below 20% at times based on availability of these bonds. Therefore, we consider this portfolio-level criterion to be non-binding.

Proxy Voting and Engagement: The Fund's proxies are voted in accordance with the Fund's proxy voting guidelines. We vote proxies for all equity holdings of the Fund. Voting decisions are determined by the firm's Proxy Committee, with consideration given to recommendations from our ESG strategy team and a third-party proxy advisor. Issues related to climate change and natural resource management are prioritized because we believe prudent management of environmental issues can positively affect a company's financial performance and help mitigate the effects of climate change on the global economy. Records of all proxy votes cast or abstained are maintained in our stewardship management system.

The Fund's Engagement Policy applies to its equity and fixed-income holdings. The Fund's Stewardship Team flags companies and issues for engagement, and once an engagement effort is initiated, all written communications and meeting records, including targeted outcomes of the engagement, are logged in the stewardship management system. Engagement is undertaken with the intent to improve a company's environmental and social resource management and to reduce risks related to environmental and social practices or activities. Engagement activities include in-person and virtual meetings, written correspondence, and emails. Engagement may occur with a company's board of directors, executive management, or investor relations and may be conducted independently or in collaboration with other investors through the Fund's proxy voting and engagement service provider. The Fund's Stewardship Team reviews progress toward each engagement effort quarterly against the targeted outcomes and determines next steps as needed.

The Stewardship Policy for the Fund can be found on our **website**. We also publish an annual Proxy Voting and Engagement Report on our **website** that includes the past year's priorities, progress on current engagements, and proxy voting activity.

APPENDIX B: SAMPLE INDEPENDENT VERIFIER'S CFA INSTITUTE ESG DISCLOSURE STANDARDS FOR INVESTMENT PRODUCTS VERIFICATION REPORT (ASSERTION-BASED)

Independent Verification Report

Jackson Kissack Advisors
939 Devan Lane
Vancouver, BC V6B6L9

We have verified management's assertion ("Assertion") that Jackson Kissack Advisors ("the Investment Manager") has, for the period from 1 April 2020 through 31 March 2021, prepared and presented the accompanying presentation of the Socially Responsible Equity Strategy, and designed and implemented the related policies and procedures in compliance with the CFA Institute ESG Disclosure Standards for Investment Products ("the Standards").

The Investment Manager's management is responsible for its Assertion. Our responsibilities are to be independent from the Investment Manager and to express a limited assurance conclusion based on our verification.

We conducted this verification in accordance with the required Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products, which includes testing performed on a sample basis. We also conducted such other procedures as we considered necessary in the circumstances.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are substantially less in scope than for, a reasonable assurance engagement. The objective of a reasonable assurance engagement is to obtain reasonable assurance about whether management's assertion is fairly stated, in all material respects, in order to express a conclusion. Accordingly, we do not express such a conclusion. Because of the limited nature of the engagement, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. We believe that our procedures provide a reasonable basis for our conclusion.

Based on our verification, we are not aware of any material modifications that should be made to the Investment Manager's Assertion in order for it to be fairly stated.

XYZ Verifier
14 June 2021

Management Assertion (to be included in the Verifier's Verification Report)

As Directors of Jackson Kissack Advisors ("Jackson Kissack"), we are responsible for Jackson Kissack's claim of compliance with the CFA Institute ESG Disclosure Standards for Investment Products ("the Standards") with respect to the Socially Responsible Equity Strategy, as well as for the preparation of the attached presentation for the Socially Responsible Equity Strategy ("Compliant Presentation") in compliance with the Standards, which is free from misstatement, whether due to fraud or error. Our responsibility also includes selecting the criteria against which to measure the fair assertion of the statement of compliance with the Standards.

We confirm that we have designed policies and procedures related to the preparation of the Compliant Presentation in compliance with the Standards and have implemented those policies and procedures throughout the period from 1 April 2020 to 31 March 2021. We also confirm that we have prepared the attached Compliant Presentation in compliance with the Standards.

Jackson Kissack Advisors
21 May 2021

Question 9: Do you agree with the proposed language for a management assertion? If not, please provide suggested language.

ESG Disclosures for the Socially Responsible Equity Strategy

As of 31 March 2021

The Socially Responsible Equity Strategy uses environmental, social, and governance (ESG) data in its pursuit of long-term capital growth and avoids certain types of investments that significantly contribute to certain ESG issues. The strategy also engages with companies owned regarding material ESG issues that may affect the risk of specific holdings.

Jackson Kissack Advisors has prepared and presented the following information in compliance with the CFA Institute ESG Disclosure Standards for Investment Products. The information presented for the Socially Responsible Equity Strategy has been independently verified for the periods from 1 April 2020 to 31 March 2021. The verification report is available upon request.

CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

To disclose that a presentation has been prepared and presented in compliance with the CFA Institute ESG Disclosure Standards for Investment Products, an investment manager must comply with all the applicable requirements of the CFA Institute ESG Disclosure Standards for Investment Products for the investment product. Verification provides limited assurance that nothing has come to the verifier's attention that causes the verifier to believe that the investment manager has not, in all material respects:

- prepared and presented the accompanying compliant presentation in compliance with the CFA Institute ESG Disclosure Standards for Investment Products, and
- designed policies and procedures related to the preparation of the compliant presentation in compliance with the CFA Institute ESG Disclosure Standards for Investment Products and implemented those policies and procedures for the relevant periods.

General Information about the Socially Responsible Equity Strategy

Inception Date: 1 February 2011

Objective: The strategy seeks capital growth over the long term while seeking to outperform the benchmark over a full market cycle.

Benchmark: Russell 1000 Index. Information about the Russell 1000 Index methodology can be found on the FTSE Russell website (www.ftserussell.com.)

Asset Classes: The strategy invests in listed equity securities and money market instruments. Money market instruments typically constitute less than 5% of the total holdings.

Exclusions Related to ESG Issues

The following exclusions apply to the strategy's listed equity securities.

Tobacco

Use of tobacco products leads to devastating, widespread health problems and disease, creating significant healthcare and financial impacts for consumers of tobacco products, and can negatively impact society at large.

Exclusion Criteria:

- Issuers that have been assigned Standard Industrial Classification (SIC) codes in Major Group 21. This category includes businesses primarily engaged in manufacturing cigarettes, cigars, smoking and chewing tobacco, snuff, reconstituted tobacco, stemming and redrying tobacco, and manufacture of non-tobacco cigarettes; or

- Issuers that have earned more than 5% of their annual revenues from the sale or distribution of tobacco products in their most recent fiscal year.

Alcohol

Excessive consumption of alcohol can lead to addiction, destructive behaviors, alcohol-induced accidents, and serious health problems for consumers of alcohol products and can negatively impact society at large.

Exclusion Criteria:

- Issuers that have been assigned SIC codes of 2082 (Malt Beverages), 2084 (Wines, Brandy, and Brandy Spirits), or 2085 (Distilled and Blended Liquors); or
- Issuers that have earned more than 10% of their annual revenues from the sale or distribution of alcohol products in their most recent fiscal year.

Pornography

Pornography has adverse societal impacts such as the promotion of gender inequality and the degradation of human dignity. The strategy has zero tolerance for companies involved in the production or distribution of pornography.

Exclusion Criteria:

- Issuers found to be involved in the production or distribution of pornography.

Gambling

Excessive gambling can lead to addiction, destructive behaviors, and devastating financial problems for consumers and can negatively impact society at large.

Exclusion Criteria:

- Issuers that have earned more than 5% of their annual revenues from gambling operations in their most recent fiscal year.

Controversial Weapons

Controversial weapons include cluster munitions; anti-personnel landmines; and biological, chemical and nuclear weapons, among others. These weapons can cause uncontrolled destruction and widespread injury or death to civilians. Additionally, the strategy is subject to Regulation 123-4567, which requires the exclusion of controversial weapons.

Exclusion Criteria:

- Issuers found to be involved in the production or distribution of controversial weapons.

Thermal Coal

The strategy does not exclude all fossil fuel extraction. It excludes coal mining in particular because that is the industry that Jackson Kissack Advisors believes is most at risk as the world transitions to a lower-carbon economy. Because the strategy's objective is long-term capital appreciation, the strategy excludes businesses primarily engaged in the mining of coal to avoid this risk. This exclusion causes minimal tracking error to the index.

Exclusion Criteria:

- Issuers that have been assigned SIC codes of 1221 (Bituminous Coal and Lignite Surface Mining) or 1222 (Bituminous Coal Underground Mining).

Exclusion criteria are implemented and monitored through several mechanisms. Exclusion criteria based on SIC codes are implemented in Jackson Kissack Advisors' portfolio management system. Portfolio managers and traders are prevented from purchasing listed securities with the excluded SIC codes for accounts assigned to the Socially Responsible Equity Strategy. Exclusion criteria that are based on annual revenues are evaluated by research analysts during initial due diligence and on an ongoing basis upon the issuance of annual reports following the end of an issuer's fiscal year. Exclusion criteria that are based on the production or distribution of excluded products or services and that cannot be evaluated using SIC codes or financial statements are checked by research analysts during initial due diligence. Third-party controversy research is used to monitor current holdings on a monthly basis. When a current holding triggers an exclusion criterion, the holding will be sold within 30 days and not repurchased for a minimum period of 12 months after the sale.

ESG Data in Financial Analysis and Valuation

Investment Philosophy

We believe superior performance relative to the benchmark over time can be achieved by investing in companies that consistently create value over the long term. We believe that securities with mispriced risks and opportunities form the basis of attractive investments. We expect that including the analysis of financially relevant ESG data alongside traditional financial data will lead to a more comprehensive assessment of risk and a better estimate of security value. We believe ESG factors are neither fully understood nor fully priced by markets and thus offer "an extra tool in the toolbox" to identify security-specific risks and opportunities.

Sources and Types of ESG Information

Our investment process includes gathering research and data from multiple sources, including company reports and regulatory filings, third-party financial investment research, market data, and ESG data providers. Our research analysts take several steps to validate the reliability of the ESG information used in their analysis. ESG data used in the investment process is stored, maintained, and tracked in an internal database. ESG data that is inconsistent among data providers or sources is traced to its source of origin, including but not limited to company regulatory filings and sustainability reports, in an effort to determine the most reliable interpretation of the data. A selection of ESG information that is supplied by third-party vendors is cross-referenced against company-disclosed and other original source data on a quarterly basis. Although our analysts make every effort to use a consistent ESG dataset across all companies evaluated within an industry, ESG information is neither standardized nor consistently reported. Investments in issuers that have limited data transparency in key areas are assigned weights in the portfolio of no more than 1.0% per issuer and no more than 10% of the strategy's aggregate market value.

Identification of Material ESG Information

Analysts' assessments of ESG information materiality are based on ESG data that is relevant to each individual company as well as key governance factors that we believe are relevant for all companies. Analysts routinely reference the Sustainability Accounting Standards Board standards to identify ESG-related metrics that are most likely to have a material financial effect on company operations based on the industry in which it operates. Analysts supplement this analysis with consideration of a company's unique characteristics. For example, a company's geographic location can often lead to material region-specific ESG risks, such as risks arising from the regulatory environment or the sourcing of natural resources. All companies are evaluated according to key governance factors that we believe are universally material based on empirical studies of the relationship between corporate governance and long-term company valuation. Material ESG data that is used in the analysis and valuation of a security is further assessed for relevance based on the estimated holding period for that security.

Methodology

Our fundamental investing approach relies on identifying underpriced large- and mid-cap companies with solid earnings prospects. To more thoroughly assess each security, we supplement our financial analysis with an analysis of material ESG factors. For each issuer, our analysts forecast key financial drivers, including revenue, operating and non-operating expenses, and assets and liabilities. Analysts then assess issuer-related ESG risks and opportunities based on the material factors identified.

Financial estimates are adjusted, if relevant, according to analysts' estimates of the effects of material ESG information. Analysts may adjust a security's discount rate based on assessments of the company's management quality and board of governors. We then use our proprietary valuation model to estimate a security's intrinsic value. Securities identified as underpriced are considered for investment. Documentation of ESG analysis is incorporated into company research reports along with traditional financial analysis.

Consideration of ESG Issues in Proxy Voting and Engagement

Jackson Kissack Advisors votes company proxies on a firm-wide basis solely in the best interests of our clients in a manner that is intended to enhance the economic value of the securities held in the portfolio. Voting decisions are determined by the firm's Proxy Voting Committee in conjunction with input from the strategy teams and that of a third-party proxy advisor. All proxy votes are recorded and stored in our internal proxy voting and engagement system.

We strive to invest in companies with high-quality management and strong governance, and the Proxy Committee typically sees value in adopting management's recommendations when voting proxies. When voting against management, the following issues are typically prioritized based on their potential to affect a company's financial performance: board independence, accountability, shareholder rights, transparency, ESG reporting, workplace health and safety issues, and environmental resource management issues that may increase the likelihood of regulatory fines or risks.

When the Proxy Voting Committee has voted against management, the Engagement Team initiates an engagement effort regarding the issue to discuss our specific concerns with management by email. We also engage with companies to encourage best governance practices, including those related to reporting on material ESG information. Once an engagement effort has been initiated, a file is created in our proxy voting and engagement system that includes the company name, the specific issue identified, the targeted outcome, and a copy of the initial written communication. An automatic alert for review of each individual engagement effort is put in place based on the recommended follow-up time frame. Engagement efforts and progress are tracked and reviewed on an ongoing basis by the engagement team. Continued engagement efforts are recommended as needed in accordance with our engagement policy. All written communications and summaries of any meetings with company management are documented and maintained in the centralized internal database. The engagement team provides quarterly updates to portfolio managers and meets with them as needed.

To obtain information on how we have voted proxies for this strategy, or to request a copy of our proxy voting and engagement policies and procedures relating to the Socially Responsible Equity Strategy, submit an email request to clientsupport@jkaassetmanagement.ca or a written request to Jackson Kissack Advisors, ATTN: Compliance Department, 939 Devan Lane, Vancouver, BC V6B6L9.

Changes to ESG-Related Features Since Inception

In March 2015, the Socially Responsible Equity Strategy began incorporating material ESG factors into the investment process with the goal of having a broader set of factors to analyze for the purpose of enhancing risk-adjusted returns. On 30 September 2019, the strategy added the thermal coal exclusion.

Although we have determined that these changes are material from the perspective of social responsibility, we believe they do not represent material changes to the investment process or expected investment performance. In accordance with our notification policy, clients of the Socially Responsible Equity Strategy were made aware of these changes in the quarterly client reporting package.

APPENDIX C: VERIFIER INDEPENDENCE GUIDELINES

Please note that Appendix C is intended to be a standalone document. We have included it here to expose it for public comment at the same time as the Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products.

Introduction

The CFA Institute ESG Disclosure Standards for Investment Products ("Standards") recommend that compliant presentations of investment products should be verified. Verification is a process by which a verification firm (verifier) performs specific procedures in order to provide limited assurance on an investment manager's compliant presentation for an investment product with ESG-related features, in accordance with the required Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products. A verification must be performed by a qualified independent third party. For the verifier to be an "independent third party," there must be no independence issues between the verifier and the investment manager. Independence issues must be resolved for the verifier to be independent. If the independence issue is not resolved, the verifier is not independent. The purpose of the Verifier Independence Guidelines is to guide investment managers and their potential or current verifiers in the process of determining whether independence issues exist between them.

The investment manager has the ultimate responsibility for appointing a qualified verifier. The Standards require independence as part of a verifier's qualification requirements. Verifier qualification requirements are discussed in the Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products. The self-regulatory nature of the Standards necessitates a strong commitment to ethical integrity on the part of the investment manager as well as the verifier.

The Verifier Independence Guidelines serve as minimum guidance. The verifier must also adhere to any applicable professional independence guidance. If any conflicts exist between this guidance and the verifier's professional independence guidance, the verifier must adhere to whichever guidance is more restrictive.

Defining Independence

Defining the term “independence” is not a simple process. Crucial to the verification process is the assumption by all interested parties that the verifier performs its service in an unbiased manner and is not testing its own work. If the investment manager chooses to have an investment product’s compliant presentation verified, it must gain an understanding of the verifier’s policies for maintaining independence and must consider the verifier’s assessment of independence.

When considering a verification engagement, the investment manager and the verifier must determine if any independence issues exist between the two organizations. The verifier must create and document its own policies and procedures that address independence at both the verification firm and employee level. At a minimum, the verifier must provide to the investment manager, upon request, a summary of its independence policies. The investment manager should create and document its own policies and procedures that address independence. The investment manager should consider drawing on the resources from its own Standards’ oversight committee, if one exists.

During the process of determining whether any independence issues exist, both the investment manager and the verifier must be cognizant of actual as well as perceived independence issues. When considering verifier independence, each organization must keep in mind the following question: *If an investment manager’s prospective or current investor places reliance on the fact that the compliant presentation has been verified, could the prospective or current investor’s perception of the value of the verification potentially change if the prospective or current investor knew about other existing relationships between the investment manager and the verifier?*

If the investment manager is contemplating hiring a verifier that offers other products or services (together, “other services”) that the investment manager could or does use, the investment manager must take additional steps to gain an understanding of how the verifier maintains independence from the investment manager. For verifiers that provide other services in addition to verification services, it may prove difficult for the verifier to identify all of the other services provided by the verifier’s organization. For example, a verifier may serve in an advisory role in a corporate acquisition/sale, which would not be disclosed to the verifier’s or investment manager’s employees involved with the verification engagement. Depending on the nature of the other services that the verifier provides to the investment manager, an independence issue may or may not arise. Verifiers must establish policies and procedures to attempt to identify all other services provided to an investment manager so that the potential effect on independence may be assessed.

The verifier and the investment manager must spend as much time as is reasonably necessary for them to agree that none of the relationships between the two organizations will impair the verifier’s independence.

Independence Issues

The verifier and the investment manager must discuss with each other identified issues that could potentially affect independence as they arise. The verifier and the investment manager must determine whether these issues can be resolved such that independence is achieved. The verifier must document the conclusions reached and the rationale for their conclusions. Disclosure alone does not resolve an independence issue.

It may be helpful for both the verifier and the investment manager to consider independence as a continuum. At one extreme of the continuum is a verifier that has no other relationships with the investment manager. At the other extreme is a verifier that has existing relationships and independence issues with the investment manager that cannot be resolved, such that the verifier cannot conduct the engagement because independence cannot be achieved. The verifier and the investment manager must determine where on this continuum their relationship lies and whether it is appropriate to proceed with the verification engagement.

When a verifier determines that an independence issue prevents it from continuing to provide verification services to an investment manager, the verifier must immediately inform the investment manager of the independence issue. The verifier and the investment manager must also determine whether the newly discovered independence issue extends to any periods that were covered under prior verifications. If it does, the investment manager must cease making any claims that the investment product's compliant presentation has been verified for the period during which the independence issue existed, and the verifier must rescind any previously issued verification reports covering the affected period. The investment manager may choose to subsequently have an investment product's compliant presentation verified by an independent third party for the affected period.

Guiding Principles

- The verifier must be independent from the investment manager.
- The verifier and the investment manager must adhere to the Verifier Independence Guidelines.
- The verifier must adhere to any independence guidance for its profession, if applicable.
- The verifier must create and document its own policies and procedures that address independence.
- To the best of their ability, the verifier and the investment manager must consider their entire relationship when analyzing potential independence issues.
- The verifier must conclude that the verifier is independent prior to the start of the engagement, as evidenced by the engagement letter.

- The verifier and the investment manager must discuss, and the verifier must document, all potential independence issues that arise during or after the engagement and how they were resolved.
- All independence issues must be adequately resolved prior to issuing a verification report.
- If at any time an independence issue cannot be adequately resolved, the verifier must not perform or continue to perform the verification.
- The verifier's independence must be affirmed by the verifier at the conclusion of the engagement as evidenced by the issuance of the verification report.
- The verification report must include language indicating that the verifier is independent from the investment manager. The word "independent" must be included in the report title (e.g., using the title "Independent Verification Report"). The verifier may also include a statement acknowledging its independence within the verification report.
- The verifier and the investment manager must reassess independence whenever any new information comes to light during or after the engagement that could affect independence. The conclusions reached and rationale for the conclusions must be documented by the verifier.
- If it is determined that the verifier issued a verification report to the investment manager when the verifier was not, or is not, independent of the investment manager, the investment manager must cease making any claim that the investment product's compliant presentation was verified for the period for which the verifier was not independent and must consider this to be a material error.
- Verifiers must not engage in the following:
  - Stepping into a management role on behalf of the investment manager;
  - Undertaking any management function or a decision-making role relative to the implementation of and compliance with the Standards; or
  - Testing their own work.
- "Management functions" are tasks and responsibilities related to the ESG investing and disclosure process. Management functions include, but are not limited to, the following:
  - Creating policies and procedures for complying with the Standards;
  - Calculating ESG-related metrics; and
  - Preparing compliant presentations.

Question 10: Do you agree with the Guiding Principles for Verifier Independence? Should any additional Guiding Principles be added?

Assessment of Verifier Independence

In addition to verification services, verifiers may provide other services to the investment manager. The verifier must be particularly cognizant of its role as adviser to the investment manager on issues relating to compliance with the Standards. The verifier must take into account other services currently or previously provided to the investment manager, particularly if the period covered by the other services is also covered by the independent verifier's verification. Independence issues must be resolved in order for the verifier to be independent. Because each situation is unique, the following section contains considerations of other services provided by the verifier. Although not exhaustive, these considerations are provided to assist verifiers in more precisely defining the types of other services that result in an independence issue.

Consideration of Other Services Provided by the Verifier

Other services can include both ESG-related and non-ESG-related services. When the verifier provides other services that are ESG related, the verifier must not step into a management role or undertake any management function. Further, the verifier must not perform, or have performed in the past, any other services that would result in the verifier reporting on its own work and decisions or calling its own work into question during the verification.

Other services performed by an affiliate of the verifier may create an independence issue. Such other services must be considered as being performed by the verifier and must be evaluated as potential independence issues. An affiliate is any undertaking connected to another by means of common ownership, control, or management.

Examples of other services provided to an investment manager that, if performed by the verifier, are unlikely to create an independence issue include the following:

- Providing advice to the project management team that is responsible for complying with the Standards (such advice must not include making decisions on these issues for the investment manager);
- Identifying issues that hinder an investment manager's compliance with the Standards;
- Educating investment manager personnel about the Standards and the compliance process;
- Providing advice on the Standards' implementation or compliance issues;
- Providing generic examples of compliant presentations;
- Providing Standards compliance checklists;
- Providing training on topics related to the Standards;
- Providing examples of policies and procedures language;

- Reviewing results of ESG-related system conversion testing; and
- Providing advice on selecting new ESG-related systems. The verifier must not receive any monetary or non-monetary compensation from the system providers for their review or recommendation.

Examples of other services provided to an investment manager that, if performed by the verifier, create an independence issue include, but are not limited to, the following:

- Establishing policies and procedures;
- Functioning as a project manager or as a member of the investment manager's project management team that is responsible for complying with the Standards;
- Making decisions for the investment manager about issues for complying with the Standards;
- Making decisions about disclosures that will be included in compliant presentations;
- Collating or creating the underlying data required to support ESG disclosures;
- Calculating statistics or metrics included in compliant presentations;
- Preparing compliant presentations;
- Designing or implementing a new ESG-related system for the investment manager;
- Functioning as a data warehouse on behalf of the investment manager. The verifier can maintain data duplicated for its own purposes, but these data must not serve as the investment manager's primary data source; and
- Seconding staff to the investment manager for performing services related to ESG investing or compliance with the Standards.

Question 11: Are there any other services that could create independence issues that should be included?

Other Issues That Must Be Considered When Determining a Verifier's Independence Status

Other issues that are not directly related to verification services may affect a verifier's independence. For example, if the verifier serves as an advocate for the investment manager (e.g., the verifier promotes the investment manager in order to solicit clients on the investment manager's behalf) or acts on behalf of the investment manager in disputes with third parties, such actions likely create an independence issue. Joint appearances by the verifier and the investment manager solely for educational events do not necessarily create an independence issue.

A verifier and its employees must also consider their personal and financial relationships with their clients and consider whether they are, in fact, independent or could be influenced by such relationships. Mere disclosure of a personal or financial relationship does not resolve the independence issue.

Examples of relationships for a verifier or its employees that could create an independence issue include, but are not limited to, the following:

- Employment at the investment manager of immediate family members (e.g., spouse, parents, children, siblings) of members of the verifier's team, who are able to significantly influence the verification or matters relating to the investment manager's compliance with the Standards;
- Providing and receiving of non-trivial gifts or non-trivial entertainment between the verifier and the investment manager;
- Any discount received by the investment manager on other products, such as software or an errors and omissions insurance policy, resulting from a relationship between the verifier and the product provider;
- The verifier's relationship with a software provider whereby the verifier receives a referral fee or non-trivial gifts or non-trivial entertainment whenever it successfully recommends the software to an investment manager;
- Personal investments by members of the verifier's team and their immediate family members in the investment manager or the investment product whose compliant presentation is being verified; and
- A contingent fee arrangement whereby no fee is charged for the verification unless a specified result is attained or whereby the fee amount depends on the results of the services provided by the verifier.

Question 12: Should any other issues be included for determining a verifier's independence?

APPENDIX D: ESG VERIFICATION SUBCOMMITTEE MEMBERS

CFA Institute would like to thank the members of the ESG Verification Subcommittee for their invaluable contributions to this Exposure Draft.

Dmitri A. Senik, CFA (Chair)
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PricewaterhouseCoopers AG
Switzerland

Crista DesRochers, CIPM
Partner
ACA Group
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PricewaterhouseCoopers – Hong Kong
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Greta Nathan
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Ophelie Peypoux
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Ossiam
France

Daniel A. Strasshofer
Partner
KPMG LLP
United States

Shengxin (Allen) Xiao, CFA
Deputy Chief Risk Officer
Amundi Asset Management
United States

APPENDIX E: QUESTIONS FOR PUBLIC COMMENT

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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The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow.

CFA Institute