

**Response Form for the  
Exposure Draft of the  
Verification Procedures for the  
CFA Institute ESG Disclosure Standards  
for Investment Products and  
Verifier Independence Guidelines**

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 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 Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products (the “Verification Procedures”) provide verifiers with a minimum set of procedures required to provide limited assurance on an investment product’s compliant presentation. The Exposure Draft also provides guidelines on verifier independence. The goal for this Exposure Draft is to elicit feedback on the proposed requirements within the Verification Procedures and Verifier Independence Guidelines. 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 the Exposure Draft will help shape the final version of the Verification Procedures and Verifier Independence Guidelines. Comments should be provided in this Response Form, found [here](#) on the CFA Institute website, and submitted to [standards@cfainstitute.org](mailto:standards@cfainstitute.org).

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

Positive comments in support of a proposal are equally as helpful as those that provide constructive suggestions for improvement.

### Requirements for submission

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

- **Insert responses 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.**
- **Submit the response form to [standards@cfainstitute.org](mailto:standards@cfainstitute.org) by 5:00 PM E.T. on 21 September 2021.**

### General Information (required)

<b>Respondent:</b> <i>(Please enter your full name if you are submitting as an individual or the name of the organization if you are submitting on behalf of an organization.)</i>	Ernst & Young LLP
<b>Stakeholder Group:</b> <i>(Please select the stakeholder group with which you most closely identify.)</i>	Service Provider
<b>Region:</b> <i>(If you are submitting as an individual, please select the region in which you live. If you are submitting on behalf of an organization and the organization has a significant presence in multiple regions, please select "Global". Otherwise, please select the region in which the organization has its main office.)</i>	Global
<b>Country:</b> <i>(If you are submitting as an individual, please enter the country in which you live. If you are submitting on behalf of an organization, please enter the country in which the organization has its main office.)</i>	United States
<b>Confidentiality Preference:</b> <i>(Please select your preference for whether or not your response is published on the CFA Institute website.)</i>	yes, my response may be published

## QUESTIONS

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

<QUESTION\_01>

**If, based on the feedback from the market, the CFA decides to proceed with the adoption of the Standards and the Verification Procedures, we believe the Institute should consider our comments included in this submission.**

We agree that the minimum period for which a verification may be conducted should be one year. However, we believe that additional guidance is necessary regarding periodic verifications.

It is our understanding that the Standards do not contemplate periodic reporting but instead only contemplate updates to the presentation when changes are made to either the Standards or the investment product (Section 1.A.10 and page 11 of the Standards). As such, the Verification guidance does not address when a verification may be elected by an investment manager. We believe the guidance should clearly state whether an investment manager may elect to have a verification performed annually or only when the manager updates the presentation. We also believe that, if the intent is to allow a verification only when the investment manager updates the presentation, that could result in a presentation that is not as meaningful to the users, as further explained below.

Section 2.A.6 of the Standards requires that a compliant presentation that has been verified includes a statement that the information presented has been verified for a specified period and that verification provides limited assurance that compliant policies and procedures have been implemented for that specified period. We believe the intended users of a compliant presentation are most interested in the fact that compliant policies and procedures continue to be implemented for a particular investment product (e.g., if the presentation states that the Fund's policy is to invest at least 80% of its assets in companies that meet certain gender diversity criteria, the intended users of the presentation would want to know whether the Fund is actually following this policy). We do not believe that a "stale" claim of compliance and a "stale" verification would be as valuable to the users as ones updated periodically. Furthermore, the users may incorrectly assume that the verification covers periods beyond those explicitly stated in the presentation, if they receive the presentation several years after it was prepared and verified.

We recommend that the Verification Procedures be amended to (1) indicate that, when a verification is elected by an investment manager, such verification should either be performed annually or the compliant presentation should be updated in years subsequent to the year end

of the period covered by the verification to remove the claim that the presentation has been verified and (2) provide guidance to address the risk that the verification report may be stale. Such guidance may be included in the “Agreeing on the Terms of the Engagement” section, by including a separate bullet point, as follows: “A statement that the report will only be available or distributed for up to a year after issuance, unless specifically agreed to by us.”<QUESTION\_01>

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

<QUESTION\_02>

We believe that the attributes included in the Verification Procedures are appropriate, however, it’s not clear what the CFA believes constitutes appropriate “general knowledge of ESG investing and business processes” and what it means for a verifier “to be knowledgeable about applicable ESG-related laws and regulations regarding ESG-related disclosure requirements.” We recognize that there are multiple ways practitioners may acquire and demonstrate that they possess appropriate ESG knowledge, so we recommend that the guidance offer some examples of work experience (e.g., performing other ESG assurance services), education and certifications (e.g., ISSP Sustainability Excellence Professional, SASB Fundamentals of Sustainability Accounting).<QUESTION\_02>

3. Do you agree with the 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?

<QUESTION\_03>

We have several concerns with the testing procedures.

Most importantly, we believe that the proposed Verification Procedures exceed those for a limited assurance level of service, and we recommend that the CFA modify the guidance if it retains the limited level of assurance or change the level of assurance to reasonable assurance.

We note that limited assurance requires a relatively low level of evidence and offers a reduced confidence level (e.g., 50%) that the subject matter is free of material misstatement (rather than the 95% confidence level offered by a reasonable assurance level of service). Given the low level of evidence required to obtain limited assurance, the required procedures for such an engagement (as indicated in the American Institute of Public Accountants’ (AICPA’s) AT-C 210, *Review Engagements*) often only include inquiry and analytical procedures. The required procedures included in the Verification Procedures go well beyond inquiry and analytical procedures.

The required Verification Procedures appear to be designed to support a reasonable assurance opinion (e.g., GIPS). If the CFA chooses to retain limited assurance as the level of service for the Verification Procedures, the required Verification Procedures should be reduced (e.g., modified to clarify which procedures are required and which ones are optional. For example, the guidance should say “consider testing” rather than “test.”).

We also believe the CFA should select either reasonable or limited assurance as the level of service for the Verification Procedures and not allow investment managers to choose the level of assurance because offering optionality could create market confusion. A consideration in favor of reasonable assurance may be the fact that CFA's Global Investment Performance Standards (GIPS®) compliant presentation may accompany CFA's ESG Standards compliant presentation, and GIPS® offer a reasonable assurance level of service.

We also recommend that the Verification Procedures require the verifiers to follow a set of established assurance standards when executing verification engagements, in addition to performing the minimum required testing procedures outlined in the Verification Procedures. We believe that the testing procedures included in the Verification Procedures alone are not sufficient for the verifiers to adequately execute ESG assurance engagements. Multiple verifiers performing the same evaluation would not execute the engagement in the same manner (e.g., some may rely on insufficient evidence in order to reach the same conclusion). In the ESG assurance space today, assurance providers, including both CPAs and non-CPAs (e.g., engineers) follow established standards, such as AA 1000, AICPA and IAASB. We believe that the Verification Procedures should follow this well-established market practice.

*Planning Procedures:*

In addition, we believe that the following presumption should be included in the "Planning Procedures" section of the Verification Procedures: "Information obtained from independent third parties that has been subjected to assurance provides a higher level of evidence than the same information that has not been assured." We believe this presumption is important to highlight, because we expect that information used by investment managers in monitoring their portfolios with ESG related features will often come from issuers' sustainability reports, and many issuers do not obtain assurance over the information in their sustainability reports.

We believe that when designing test procedures, a verifier must also consider whether the investment product's design is based on existing benchmarks, ratings or rankings (e.g., security selections are based on issuer information published by rating agencies such as MSCI or Sustainalytics, SASB materiality map is used to design policies for including and excluding securities) or custom criteria. Custom criteria may carry an additional level of risk and thus require special considerations by the practitioner when evaluating their suitability and designing testing procedures.

We also recommend that if the CFA retains the limited level of assurance, the required planning procedure "The control environment (including the extent to which automated and manual processes are used)..." should either be removed or should be made optional, rather than required, because such a planning procedure goes beyond a limited assurance engagement. The assessment of controls is a reasonable assurance concept.

We also recommend that the following requirements be added to the planning procedures:

- The practitioner should obtain an understanding of the subject matter and other engagement circumstances sufficient to provide a basis for designing and performing

procedures in order to achieve the objectives of the engagement. That understanding should include the practices used to measure, recognize, and develop the required disclosures.

- The verifier should plan procedures to identify and assess:
  - Omission of disclosures required by the Standard (for example, inadequate or incomplete disclosures)
  - Misstatements of fact in the disclosures
  - Changes to disclosures made in a previous period without reasonable justification
  - Inclusion of misleading or inappropriate information (for example, excessive or irrelevant information that obscures the disclosures required by the criteria)
- The practitioner should also:
  - Consider materiality for the disclosures including benchmarks and thresholds for evaluating the disclosures
  - Use materiality to assess risks of material misstatement and design procedures

#### *Required Verification Procedures and Appendices*

We also recommend that the CFA amend the Example Disclosures throughout the Verification Procedures (both in “Required Verification Procedures” section and in the illustrative presentations in the appendices) to use only language that is objective and sufficiently precise in order for the users to understand the criteria used and for practitioners to be able to test the information disclosed.

Currently, many of the Example Disclosures include language that is either subjective or not sufficiently precise. For instance, Example Disclosure 1 on page 10 includes the following sentence: “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.” An investment manager’s belief is not objective and therefore not verifiable. Another example is Example Disclosure 3 on page 13, which states: “...the Fund has portfolio-level criteria that strictly limit its carbon footprint and exposure to fossil fuel extraction companies to 80% of the benchmark.” The disclosure is not sufficiently precise, as it’s not possible to tell what the criteria are for “carbon footprint” or “fossil fuel extraction company” (e.g., carbon footprint may be determined by whether an investee committed to net zero or science-based targets that have been accepted by the science-based target initiative; fossil fuel extraction company may be defined as a company that generates more than X% of its revenue from extraction of fossil fuel or as a company with SASB’s Sustainable Industry Classification System (SICS) of EM.4 Oil & Gas).

We also recommend that the CFA address inconsistencies in wording throughout the Verification Procedures. For example, some procedures say “Obtain an understanding of the investment manager’s...”, while others say “Review the investment manager’s policies...to gain an understanding.” If the inconsistency in the wording is intentional, the differences should be clarified. Otherwise, consistent wording should be used throughout to avoid confusion.

We believe that if a disclosure is required by the Standards, it should be subject to assurance (assuming the investment manager elects to have its presentation verified). Therefore, we

recommend that either the Standards be amended to eliminate certain disclosure requirements or the Verification Procedures be amended to eliminate the guidance that indicates that certain information required by the Standards is not in the scope of assurance. If the CFA retains the requirements of both the Standards and the Verification Procedures as they are, the Standards should be amended to require that any information not subject to assurance be explicitly identified as such, and the Verification Procedures should be amended to include a required explanatory paragraph in the verifier’s report explaining which disclosures were out of scope of the assurance engagement. The following examples illustrate this issue.

- Example Disclosure 2 on page 12 includes the following sentence: “The Fund seeks to maintain sector weights neutral to its benchmark.” However, no testing procedures are included for this assertion. Presumably, that’s because only portfolio-level criteria based on ESG information or ESG issues are in the scope of verification.
- The Verification Procedures indicate that verifiers are not required to test the outcome of the impact objective. We believe that stating an impact objective could be misleading if information about progress made towards achieving that objective, which would be subject to verification, isn’t included. The users of the presentation and the assurance report ultimately care about whether the impact objective is likely to be achieved (and ultimately achieved), not simply the existence of the impact objective. Not extending assurance to the disclosed outcome or progress towards achieving the impact objective could be misleading. Some may believe that an impact objective may not be verifiable given its subjective nature, however, the Standards define the impact objective as “an intention to make specific, positive, measurable contribution...”. The Standards also indicate that, if an impact objective is disclosed, the desired outcome must be disclosed in measurable or observable terms. Given the specificity and measurability required by the Standards, we believe that an impact objective is verifiable and should be verified.

Procedure 16 indicates that the verifier is not required to test the appropriateness of proxy voting processes or engagement activities or the outcome of those processes and activities. We agree that these assessments should be out of scope of the assurance engagement. With respect to the appropriateness of processes and activities, we believe a broader statement should be included in the assurance report indicating that the practitioner did not evaluate the appropriateness of the [Name of Client]’s policies, procedures and methodologies with respect to the investment product and that such policies, procedures and methodologies may differ from those applied by other investment products with ESG-related features. With respect to the outcomes of stewardship activities, a more specific statement should be included to indicate that we did not perform any procedures to validate the outcomes of stewardship activities and therefore provide no assurance on such outcomes.<QUESTION\_03>

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?

<QUESTION\_04>

We believe including examples of what is and is not a material change to ESG-related features is helpful. However, we do not agree that “Adjusting ESG exclusion criteria at a granular level—



for example, changing the revenue threshold that triggers tobacco restriction from 7% to 5%” is an example of immaterial change. Such a change could be material, depending on the materiality threshold of the investment product and the impact such a change has on investment holdings. We recommend that the CFA remove this example from the Verification Procedures. In addition, we believe the CFA should define the term “significant”, which is used in two examples. Finally, we believe it would be useful to include an example of a material change resulting from a combination of individually immaterial changes that are material in the aggregate.<QUESTION\_04>

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?

<QUESTION\_05>

We do not believe it is appropriate for the compliant presentation to include information that is not subject to the verification, because doing so could cause confusion regarding what was assured and what was not. For example, the information not subject to verification may include irrelevant information that obscures the disclosures required by the Standard. However, if the Standards allow for information that is not subject to verification to be included, the Standards should be amended to require that such information be clearly identified as not subject to assurance and the Verification Procedures should be amended to provide guidance regarding a practitioner’s responsibility with respect to the information that was not subject to assurance. This guidance could be modeled on the AICPA’s AT-C 210 paragraphs .40, .A56 and .A57.<QUESTION\_05>

6. Are the examples of what is and what is not a material error are helpful? If you do not believe they are helpful, do you have suggested examples that should be included?

<QUESTION\_06>

We believe that the examples of what is and is not a material error are helpful. However, we have the following recommendations:

- We believe it would be helpful to include an example showing that a material error could be caused by incorrect data from third-party providers. It is possible that errors in data from third-party providers arise that could result in the inclusion of a company that should have been excluded. Such incorrect inclusion could be material, depending on the investment product’s materiality thresholds.
- We believe that additional guidance should be included in the Verification Procedures. The Standards provide guidance on what an investment manager is required to do when a material error is identified in a previously issued presentation, but the Verification Procedures do not provide guidance on what a practitioner is required to do when a material error is subsequently discovered in a presentation the practitioner previously reported on. Such guidance should be included in the Verification Procedures and could be modeled on the AICPA’s existing guidance for these circumstances (e.g., AT-C 210 paragraphs .A44 and .A45)

.<QUESTION\_06>

7. Should any professional guidance be included here?

<QUESTION\_07>

We believe that the examples listed here cover all major attestation frameworks and that the use of “e.g.” appropriately indicates that other frameworks may be used, if applicable.<QUESTION\_07>

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.

<QUESTION\_08>

We believe that an investment manager cannot claim that a presentation has been verified if the verification report has a modified conclusion. However, the Verification Procedures should allow for a qualified report to be issued. Issuance of the qualified report is allowed under the AICPA standards and, unlike an adverse report, a qualified report might offer valuable information to the users. For example, an investment manager may not implement one required policy or may not implement it for the entire period. In this situation, we believe the stakeholders would find the presentation and the related qualified conclusion useful in decision making, because the reason for the qualification would be clearly stated in the presentation and the report, which would allow the stakeholders to evaluate the importance of the policy that has not been implemented. Issuance of qualified attestation reports is common practice for this reason. <QUESTION\_08>

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

<QUESTION\_09>

We agree with the proposed language for a management assertion with two exceptions. First, we believe the word “confirm” should be replaced with “assert,” since this is management’s assertion, rather than management’s confirmation. And second, we believe the assertion should include a statement that management is responsible for determining that the Standards are appropriate criteria for their purposes. For example, the last sentence of the first paragraph of the assertion might be expanded to include the following language: “...and for determining that the Standards are appropriate criteria for our purposes.”

In addition, we believe that the illustrative example in Appendix A should follow the same model when identifying the periods being reported on as the illustrative example in Appendix B (i.e., the report covers only on one annual period, rather than multiple annual periods) or a clarifying footnote should be included explaining that generally practitioners are expected to report on a single year and providing an example of when reporting on multiple years may be appropriate. While we recognize that it might be possible for a practitioner to be engaged and issue a report on multiple consecutive periods (e.g., when an investment manager is adopting the Standards for the first time or when the presentation is being verified for the first time), we are concerned that the illustrative example in Appendix A may be misinterpreted to mean that the practitioner’s report must cover multiple periods, even when the investment manager elects

annual verification. For example, if the presentation was first verified in 2020 and the investment manager elects to get the presentation verified again in 2021, one might misinterpret the example in Appendix A to suggest that the 2021 verification report should refer to both 2020 and 2021. We do not believe that was the intent of the Verification Procedures, as it could result in a practitioner having to report on 10, 20 and more years in one report, which is likely not a reasonable expectation.<QUESTION\_09>

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

<QUESTION\_10>

We do not have concerns with the Guiding Principles for Verifier Independence, with the exception of the following issues:

- We recommend removing the words “to the best of their ability” from bullet point 5, which currently says “To the best of their ability, the verifier and the investment manager must consider their entire relationship when analyzing potential independence issues.” This language introduces unnecessary ambiguity with respect to what’s required. If the CFA retains these words, we recommend that an example be included to clarify what is meant by these words.
- We recommend that bullet point 6 (“The verifier must conclude that the verifier is independent prior to the start of the engagement, as evidenced by the engagement letter.”) be revised to state that this conclusion must be reached by both the verifier and the investment manager, which is consistent with the spirit of the rest of the Verifier Independence Guidelines.

<QUESTION\_10>

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

<QUESTION\_11>

We believe that the services listed here are good examples of services that may or may not pose independence issues with the exception of the example of “Providing examples of policies and procedures language”, which should be modified to say “Providing generic examples of policies and procedures language” to make it clear that the examples provided by the practitioner should not be customized to a specific investment product/investment manager. We further believe that the use of “include, but not limited to” with respect to services that create an independence issue appropriately makes it clear that this list is not comprehensive.<QUESTION\_11>

12. Should any other issues be included for determining a verifier’s independence?

<QUESTION\_12>

We believe that close personal relationships (e.g., dating, vacationing together) between members of the verifier’s team and individuals at the investment manager who are able to significantly influence the verification or matters relating to the investment manager’s compliance with the Standards would also pose independence issues, and therefore should be included in this section. With respect to the bullet point 3, we believe a clarification should be

included that only discounts not provided in the ordinary course of business would pose independence issues. Discounts offered to everyone, including the verifier, would likely not cause independence concerns.<QUESTION\_12>

13. Do you have any other suggestions that we should consider in the Verification Procedures or Verifier Independence Guidelines?

<QUESTION\_13>

We have the following suggestions:

- If the CFA chooses to retain limited assurance as an acceptable level of service, we recommend that it recast the purpose of verification to state that verification focuses on evaluating whether the policies and procedures are based on the components required by the Standards. In addition, instead of requiring that the practitioners conclude on whether the policies and procedures are suitably designed to enable the investment manager to prepare and present the compliant presentation in compliance with the Standards, the Verification Procedures should require that the practitioners conclude on whether the policies and procedures provide the investment manager with sufficiently precise, objective, relevant and complete criteria for making the disclosures required by the Standards.” The relatively low level of evidence that is required for a limited assurance engagement is not sufficient to conclude that there are no material misstatements in the design of policies and procedures or that the policies and procedures are suitably designed, which is why the AICPA standards prohibit limited assurance engagements when the subject matter is internal controls (AT-C 201 paragraph .07). Assessing “design” involves assessing the likelihood that the controls are operating effectively, which cannot be done in a limited assurance engagement. In addition, because the Standards do not offer guidance on what the policies and procedures should be, it is not possible for a practitioner conclude on whether the policies and procedures are consistent with the Standards.
- We recommend that the CFA replace the words “in compliance with” in the Verification Procedures and the Standards with the words “in accordance with.” We note that the proposed Verification Procedures use the words “in compliance with the Standards” in both parts of a practitioner’s conclusion statement (i.e., the compliant presentation is in compliance with the Standards and the policies and procedures have been designed in compliance with the Standards). However, the AICPA attestation standards make a clear distinction between the terms “in compliance with” and “in accordance with/based on.” The former is used exclusively in connection with the engagements conducted under AT-C 315, Compliance Attestation, and the latter is used in connection with other attestation engagements, including limited assurance engagements performed under AT-C 210, Review Engagements. The relatively low level of evidence that is required for a limited assurance engagement is not sufficient to conclude on compliance with requirements of specified laws, regulations, rules

(e.g., the Standards), contracts, or grants, which is why the AICPA standards preclude limited assurance engagements when the subject matter is compliance.

- If the CFA retains limited assurance as an acceptable option, we recommend that the term “verification” be replaced with “limited assurance engagement.” We believe that using the term verification, which is widely accepted as meaning “to establish the truth/accuracy,” in a practitioner’s report or management’s presentation would be misleading if the level of assurance provided is limited. Furthermore, the term “verification” is used in the CFA’s GIPS®, where it refers to a reasonable assurance engagement. Since GIPS® are a well know and broadly applied framework in the investment management industry, use of the term “verification” in connection with limited assurance engagements contemplated by the Verification Procedures would be misleading and confusing to the users. Finally, we note that one of the examples meant to illustrate the diversity in the terms used by various standards and frameworks when referencing limited assurance engagements incorrectly states that a limited assurance engagement performed under the International Auditing and Assurance Standards Board’s (IAASB’s) International Standard on Assurance Engagement (ISAE) guidance might use the term “examination.”
- We recommend that the CFA eliminate the proposed requirements in the “Defining Independence” section that the investment manager must “gain an understanding” of the verifier’s independence policies and that “At a minimum, the verifier must provide to the investment manager, upon request, a summary of its independence policies.” These requirements go beyond what is required by either the AICPA or the IESBA Codes of Ethics. The standards today require that an investment manager satisfy themselves with the fact that the verifier does have policies in place, not gain an understanding of those policies. Given the complexity and breadth of independence policies, this requirement could be unreasonably burdensome on both the investment manager and the verifier, who would now be required to create a summary of its independence policies to provide to the client.
- The “Independence Issues” section should include guidance that makes it clear that independence issues should be reported to those with oversight responsibilities and decision-making capacity at the investment manager (i.e., senior management or those charged with governance).

<QUESTION\_13>