

Examination Procedures for the Global ESG Disclosure Standards for Investment Products Adopting Release

The Exposure Draft of the Verification Procedures for the CFA Institute ESG Disclosure Standards for Investment Products (now named the “Examination Procedures for the Global ESG Disclosure Standards for Investment Products”) was available for public comment from 21 July 2022 through 21 September 2022. We received comments from 6 groups, 5 of which gave permission to have their [comment letters](#) posted. Every comment was evaluated and considered when drafting the Examination Procedures for the Global ESG Disclosure Standards for Investment Products (the “Examination Procedures.”) The proposed changes were then reviewed with, and approved by, the ESG Examination Subcommittee and the ESG Technical Committee. This Adopting Release includes key topics and describes our rationale for the changes we made to the Examination Procedures for the Global ESG Disclosure Standards for Investment Products.

1. Change from Verification Procedures to Examination Procedures

The term “Verification” is used in the Global Investment Performance Standards (GIPS®) to refer to testing by an independent third party that is conducted on a firm-wide basis. The Global ESG Disclosure Standards for Investment Products (the “ESG Disclosure Standards”), however, apply on an investment product basis and not on a firm-wide basis. To avoid confusion with the term as used in the GIPS standards, and to prevent misunderstanding about the scope of testing, we determined that the term Examination Procedures was more appropriate and would cause less confusion. We use the term “examiner” or “examination firm” to refer to the organizations that conduct this testing.

2. Change from Limited Assurance to Reasonable Assurance

In the Exposure Draft, we proposed certain testing procedures that an examiner would perform to provide limited assurance on whether the manager:

- prepared and presented the ESG Disclosure Statement in compliance with the ESG Disclosure Standards, and
- designed policies and procedures related to the preparation and presentation of the ESG Disclosure Statement in compliance with the ESG Disclosure Standards, and has implemented them.

In a limited assurance engagement, an examiner would express an opinion stating that nothing came to the examiner’s attention that caused the examiner to not believe the manager’s statements about the preparation and presentation of the ESG Disclosure Statement and the design and implementation of its policies and procedures. We received feedback that the testing procedures proposed exceeded the procedures that would be required for a limited assurance engagement and were more aligned with a reasonable assurance engagement. In a reasonable assurance engagement, the examiner provides positive assurance about the manager’s statements about the preparation and presentation of the ESG Disclosure Statement and the design and implementation of its policies and procedures. We

determined that the testing procedures proposed were the minimum procedures that were needed to provide the investing public with confidence in the work performed by the examiner and determined that we should change the report type from limited assurance to reasonable assurance.

3. Modified Opinion

We acknowledge that many of the firms doing examinations will be public accounting firms, so we relied heavily on accounting language provided by the American Institute of Certified Public Accountants (AICPA.) The AICPA staff and their colleagues provided us with valuable feedback on the examination process and the language to be used in the examination report.

Assurance reports issued by public accountants can take different forms. Opinions fall into two categories: unmodified and modified. An unmodified opinion, also referred to as a “clean” opinion, states that the subject matter upon which the examiner is opining is fairly presented in all material respects.

There are three types of modified opinions: qualified, adverse, and a disclaimer of opinion.

A qualified opinion might be issued when the examiner was unable to perform adequate testing of all information included within the report the examiner is testing or when there was incorrect information with the report, that is, there are material exceptions that are “qualified” in the auditor’s opinion.

In the Exposure Draft, we proposed not allowing for a modified opinion because a reader might not understand such an opinion. We believed that allowing a modified opinion would put the burden on the reader to understand what had been tested and what had not been tested. However, because we changed to a reasonable assurance engagement, which requires testing of all of the applicable required disclosures, we determined that we need to allow for a qualified opinion. A qualified opinion may be appropriate when all required disclosures are present but there has been a material breakdown in a process that cannot be corrected retroactively. For example, if an investment product had a process to screen out securities with greenhouse gas emissions above a certain level but there was a breakdown in that process that was discovered and corrected only several months later, this issue can obviously no longer be corrected retroactively for the affected periods. Therefore, the examiner would issue a qualified examination report with respect to the implementation of the related policies and procedures, which includes a description of the breakdown in the process. An examiner would not issue a qualified opinion for an immaterial event or another immaterial item.

The ESG Disclosure Standards do not allow an investment manager to represent or state that an ESG Disclosure Statement is “in compliance with the Global ESG Disclosure Standards for Investment Products except for....” A qualified opinion would normally not be issued in the case of a missing disclosure because the manager would be able to correct the ESG Disclosure Statement and include the missing disclosure, unless the information required for the missing disclosure is not available. In this case, the examiner would issue a qualified opinion.

An adverse opinion would be issued if the magnitude of exceptions is so severe that the examiner cannot attest that the ESG Disclosure Statement has been prepared in compliance with the ESG Disclosure Standards and that the policies and procedures related to the preparation and presentation of the ESG Disclosure Statement have been designed in compliance with the ESG Disclosure Standards and have been implemented.

A disclaimer of opinion would be issued if there are significant limitations on the scope of testing, for example, a lack of supporting evidence for the information presented in the ESG Disclosure Statement.

4. Requirement to Disclose Examination Status

The ESG Disclosure Standards do not require a manager to disclose if the investment product has been examined and left this issue for the ESG Examination Subcommittee to address. We decided to not require an investment manager to disclose that an investment product's ESG Disclosure Statement has been examined. However, if an investment manager wishes to disclose that the investment product's ESG Disclosure Statement has been examined and it received a qualified opinion, then it must disclose that a qualified opinion was issued. The manager must also include information about the reason for the qualified opinion. This disclosure may be accomplished by including the examination report as an exhibit to the ESG Disclosure Statement.

If the investment manager received a qualified opinion, but it chooses not to disclose that the investment product's ESG Disclosure Statement has been examined, then it must disclose the nature of the issues that caused the examiner's qualified opinion in the ESG Disclosure Statement.

If the investment manager received an adverse opinion or a disclaimer of opinion, the manager may not claim compliance with the ESG Disclosure Standards.

5. Examination Report and Management Assertion

In the Examination Procedures, we decided to provide a single examination report example that includes the examiner's examination opinion, management assertion, and the ESG Disclosure Statement. We expect that this format will be most commonly used by public accounting firms, whereby the examiner examined management's assertion and reports directly on the subject matter. An examiner that is not a public accounting firm could also use this format or instead could use a different format or wording; however, the examiner must include some mandatory elements that are defined in the Examination Procedures.

6. Example Disclosures and Testing Procedures

For each Provision in the ESG Disclosure Standards Handbook that included examples, we incorporated at least one example disclosure from the Handbook and created testing procedures for how an examiner should determine that the example disclosure is proper. For purposes of writing the testing procedures, we generally assumed that the investment product whose ESG Disclosure Statement is being examined was a pooled fund as opposed to a composite. Because the ESG Disclosure Standards are new and examiners might struggle to determine the testing that should be done, we felt that providing testing procedures around actual examples would provide clarity for examination firms.

7. Examiner Independence Guidelines

In the Exposure Draft, we included the Verifier Independence Guidelines (now called Examiner Independence Guidelines) as an appendix and we stated that the independence guidance was intended to be a standalone document. We originally thought that the independence guidance would be completed after we were finished with the Examination Procedures. However, we finished this document at the same time as the Examination Procedures, so we think it makes sense to include it with the Examination Procedures. Examiners and other interested parties will need to look at only one combined document rather than one document for Examination Procedures and another document for the Examiner Independence Guidelines.

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