Sustainable Investing Certificate(CFA-SIC) Exam

CFA Institute Sustainable-Investing

Version Demo

Total Demo Questions: 79

Total Premium Questions: 792

Buy Premium PDF

https://dumpsarena.co

sales@dumpsarena.co

sales@dumpsarena.co

dumpsarena.co

Topic Break Down

Topic	No. of Questions
Topic 1, Introduction to Sustainable Investing	80
Topic 2, The Sustainable Investing Market	144
Topic 3, Environmental Factors	114
Topic 4, Social Factors	67
Topic 5, Governance Factors	93
Topic 6, Engagement and Stewardship	99
Topic 7, Sustainable Investing Analysis, Valuation, and Integration	107
Topic 8, Sustainable Investing Portfolio Construction and Management	74
Topic 9, Sustainable Investing Scenario Analysis	6
Topic 10, Mix Questions	8
Total	792

QUESTION NO: 1

Compared to other ESG strategies, fully integrated ESG strategies tend to feature:

A. less concentrated positions.

B. similarly concentrated positions.

C. more concentrated positions.

ANSWER: C

Explanation:

more concentrated positions. Fully integrated ESG investing embeds material environmental, social, and governance information directly into fundamental security analysis, valuation, portfolio construction, and stewardship rather than applying ESG as a separate screen or overlay. This approach commonly leads managers to develop high-conviction views of the relatively smaller set of issuers for which they have sufficient financial and ESG evidence and believe ESG factors can affect long-term cash flows, risk, competitive position, or valuation. The resulting portfolio can therefore hold fewer names and assign larger weights to preferred holdings, producing greater concentration than strategies designed mainly to maintain broad benchmark exposure while applying limited ESG constraints. Concentration is not an automatic requirement of ESG integration: implementation depends on the mandate, benchmark, risk limits, liquidity, and diversification requirements. Nevertheless, compared with other ESG approaches, a fully integrated strategy tends to express its combined financial and ESG research through a more selective, conviction-driven portfolio. CFA Institute describes ESG integration as the explicit and systematic inclusion of ESG issues in investment analysis and decisions; this definition supports treating ESG information as an input to security selection and portfolio weights. See CFA Institute's ESG Investing resources and the Principles for Responsible Investment overview of ESG integration.

QUESTION NO: 2

Which of the following steps in the ESG rating process is most likely the earliest source of the dispersal of opinions between different ESG rating agencies?

A. Identification of ESG factors

B. Determination of weighting and scoring methodologies

C. Gathering of a set of data points for the identified ESG indicators

ANSWER: A

Explanation:

Identification of ESG factors is the earliest likely source of dispersion because it establishes the scope of what an ESG rating agency considers relevant to evaluating an issuer's environmental, social, and governance performance. Agencies use proprietary frameworks and may select different topics, define materiality differently, or emphasize different stakeholder impacts and industry-specific risks. For example, one provider may treat biodiversity, supply-chain labour practices, or political lobbying as a central factor for a particular company, while another may not include that topic within its assessed universe or may define it differently. These initial choices determine the indicators subsequently sought, the data collected, and the eventual construction of the rating. As a result, divergence can originate before agencies apply their individual scoring models or aggregate results into an overall ESG assessment. This is consistent with research on ESG-ratings divergence, which identifies differences in the scope of attributes covered as a foundational contributor to disagreement among raters. CFA Institute materials also emphasize that ESG ratings are based on varied methodologies and inputs, so users should understand the underlying coverage and assessment approach rather than view ratings as directly interchangeable measures. See CFA Institute's discussion of ESG ratings and research on ESG ratings divergence.

QUESTION NO: 3

Which of the following is a form of individual engagement?

A. Generic letter

B. Soliciting support

C. Informal discussions

ANSWER: C

Explanation:

Informal discussions are a form of individual engagement because they involve a single investor or asset manager communicating directly with an investee company, typically with management, the board, or relevant operational staff. Engagement is an active-ownership practice through which investors seek information, communicate expectations, and encourage improvements in practices, disclosure, strategy, governance, or management of sustainability-related risks and opportunities. An informal discussion can be an initial conversation or an ongoing private dialogue. Its relatively flexible format allows the investor to raise a specific concern, understand the company's position and constraints, identify possible actions, and monitor progress over time. Individual engagement is not limited to highly formal escalation mechanisms: direct dialogue is often a core starting point and can be tailored to the investor's holding, objectives, and relationship with the issuer. CFA Institute describes stewardship as including engagement with issuers and emphasizes the role of investor dialogue in addressing ESG considerations. See CFA Institute's ESG investing research and resources and the Principles for Responsible Investment's overview of stewardship.

QUESTION NO: 4

Examples of quantitative ESG analysis include:

A. tilting toward certain ESG factors in index-based strategies.

B. analyzing if an issuer's executive compensation policies are linked to progress on ESG-related goals.

C. checking that an issuer's reporting on carbon emissions complies with a broadly accepted sustainability reporting framework.

ANSWER: A

Explanation:

Quantitative ESG analysis applies numerical data, scores, metrics, and systematic rules to assess or alter a portfolio's ESG characteristics. "tilting toward certain ESG factors in index-based strategies" is a direct example because an index or portfolio can use ESG ratings, carbon intensity, controversy scores, or other measurable indicators to increase the weights of securities with stronger desired ESG characteristics and reduce the weights of those with weaker characteristics. This creates a measurable change in factor exposures while generally retaining the broad market or benchmark structure. Such tilting can be implemented through transparent, rules-based portfolio construction, making it a quantitative investment technique rather than a solely narrative assessment. CFA Institute describes ESG integration as the explicit and systematic inclusion of ESG factors in investment analysis and decisions; quantitative methods support this process when ESG information is converted into data-driven portfolio inputs. Index providers likewise use ESG scores and related metrics in index methodologies to construct ESG-tilted benchmarks. See CFA Institute's ESG integration research and MSCI's overview of ESG indexes.

QUESTION NO: 5

Which of the following initiatives is most closely associated with the increased prevalence of antimicrobial resistance?

A. The Bangladesh Accord

B. Access to Medicine Index

C. Farm Animal Investment Risk and Return

ANSWER: C

Explanation:

Farm Animal Investment Risk and Return is correct because the FAIRR Initiative identifies antimicrobial resistance (AMR) as a material sustainability and systemic risk linked to intensive livestock production. Antibiotics are used in food-animal production to treat disease, prevent disease under particular circumstances, and, in some settings, support routine production practices. Inappropriate, excessive, or poorly controlled use can promote the emergence and spread of resistant microorganisms. These organisms may affect animal health, enter food systems and the environment, and ultimately undermine the effectiveness of medically important antimicrobial treatments for people.

FAIRR addresses this issue from an investor perspective. It researches livestock-sector risks and engages food companies, retailers, and animal-protein producers on antibiotic stewardship, disclosure, time-bound policies, supplier standards, and implementation practices. Its approach recognizes that AMR can create significant long-term operational, regulatory, public-health, reputational, and financial consequences. Therefore, reducing routine antibiotic use and improving stewardship within animal-protein supply chains are central features of FAIRR's sustainable-investment work. FAIRR's AMR materials describe the connection between livestock practices and investor risk in detail: FAIRR Initiative. The World Health Organization also identifies antimicrobial resistance as a major global health threat and emphasizes responsible antimicrobial use: WHO antimicrobial resistance fact sheet.

QUESTION NO: 6

Scope 2 emissions are best described as:

A. Indirect emissions from upstream activities only.

B. Indirect emissions from downstream activities only.

C. Indirect emissions from the generation of purchased energy (electricity, steam, heating, or cooling) consumed by the reporting company.

ANSWER: C

Explanation:

Indirect emissions from the generation of purchased energy consumed by the reporting company is the correct description. Under the Greenhouse Gas Protocol, Scope 2 covers emissions arising from the generation of energy that an organization purchases or acquires and consumes, including electricity, steam, heat, and cooling. Although the physical emissions occur at the energy-generating facility rather than at the reporting company's own operations, they are reported by the energy consumer because its demand for purchased energy is associated with those generation emissions.

This classification is central to comparable corporate carbon accounting and sustainable-investment analysis. It enables an investor to assess a company's exposure to the carbon intensity of its energy supply, as well as the potential effect of energy-efficiency measures, renewable-energy procurement, and decarbonization of electricity grids. Scope 2 reporting commonly includes location-based and market-based methods, which respectively reflect average grid emission factors and the emissions associated with contractual energy-purchasing instruments. The definition and reporting requirements are set out in the GHG Protocol's Scope 2 Guidance. CFA Institute also identifies greenhouse-gas emissions and their classification as important environmental information in sustainable-investment analysis; see its Sustainable Investing Certificate overview.

QUESTION NO: 7

As policies on ESG issues and financial regulation across countries reach maturity, which of the following is least likely to occur?

A. Changing from voluntary to mandatory disclosures

B. Moving from policy to implementation and reporting

C. Moving away from "comply and explain" regulation to "comply or explain" regulation

ANSWER: C

Explanation:

Moving away from “comply and explain” regulation to “comply or explain” regulation is least likely because maturing ESG policy frameworks generally seek more consistent, decision-useful, and accountable corporate disclosure. A “comply and explain” approach requires firms not only to meet specified expectations but also to communicate how those expectations have been applied. This supports comparability and enables investors, regulators, and other stakeholders to assess the substance and quality of a firm’s ESG governance, strategy, risk management, and reporting practices.

By contrast, a shift toward a framework that permits either compliance or an explanation for non-compliance would preserve greater discretion to depart from prescribed practices. Although proportionality and transitional relief can remain important in implementation, the broad direction of mature sustainable-finance regulation is toward clearer obligations, standardized reporting, assurance, and stronger supervisory oversight rather than expanded opportunities to opt out. This direction is reflected in international work on improving the consistency, comparability, and reliability of sustainability-related disclosures. See the CFA Institute’s overview of the Sustainable Investing Certificate and IOSCO’s Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management.

QUESTION NO: 8

A challenge for investors involved in collective engagement is to:

A. avoid breaching rules regarding acting in concert.

B. increase the range of messages reaching the target company.

C. prevent informal dialogue between individual fund managers' stewardship teams.

ANSWER: A

Explanation:

“avoid breaching rules regarding acting in concert.” is correct because collective engagement involves investors communicating and coordinating with one another in an effort to influence an investee company’s governance, strategy, risk management, or sustainability practices. Although such collaboration can strengthen stewardship by pooling expertise and increasing the weight of investor dialogue, participants must structure it carefully within applicable market-abuse, disclosure, competition, and takeover rules. In particular, acting-in-concert rules may become relevant when investors cooperate in a way that could be regarded as seeking to obtain or consolidate control of a company, potentially triggering disclosure obligations or mandatory-offer consequences under the relevant jurisdiction’s takeover regime.

Effective collaborative-engagement initiatives therefore establish clear objectives, governance arrangements, confidentiality protocols, and safeguards preserving each participant’s independent investment and voting decisions. Investors should focus coordination on engagement objectives and communications with the company, rather than agreeing on acquisitions, disposals, or control-oriented voting strategies. The Principles for Responsible Investment describes collaborative engagement as a useful stewardship approach while emphasizing the need for investors to consider legal and regulatory constraints. The UK Takeover Code also defines persons acting in concert in the context of cooperation to obtain or consolidate control. See the PRI Collaborative Engagement Guide for Investors and the UK Takeover Code, Rule 9.

QUESTION NO: 9

In ESG integration, model adjustments are typically performed at the:

A. research stage

B. valuation stage.

C. portfolio construction stage

ANSWER: B

Explanation:

Model adjustments are typically performed at the **valuation stage.** ESG integration is the explicit and systematic inclusion of material environmental, social, and governance information in investment analysis and investment decisions. Once an analyst has identified ESG factors that are financially material to a company, industry, or asset, those factors can be translated into valuation-model inputs. For example, climate-transition exposure may affect long-term revenue assumptions or capital-expenditure needs; human-capital practices may affect operating costs and productivity; and governance quality may influence risk assessments, the discount rate, or terminal-value assumptions. The objective is not to create a separate ESG score detached from financial analysis, but to reflect expected ESG-related risks and opportunities in estimates of cash flows, growth, profitability, and risk. Consequently, the valuation stage is where qualitative ESG research is converted into changes to the financial model and an estimated intrinsic value. This approach is consistent with CFA Institute's description of ESG integration as incorporating ESG factors into traditional financial analysis and investment decision-making. See CFA Institute's ESG Issues in Investment Analysis and Valuation and its Environmental, Social, and Governance Issues in Investing.

QUESTION NO: 10

According to a study by Berg, Koelbel, and Rigobon, the correlation of ESG ratings is:

A. High, and this can be a source of insight for investors

B. Low, and this poses a challenge for empirical research

C. Low, and this motivates companies to improve their ESG performance

ANSWER: B

Explanation:

Low, and this poses a challenge for empirical research is correct. Berg, Koelbel, and Rigobon document substantial divergence among ESG ratings from major providers. Their research finds an average correlation of approximately 0.54 across ESG ratings, which is markedly lower than the agreement commonly seen among credit ratings. The divergence arises principally because rating providers may measure different underlying indicators, use differing rules to convert raw indicators into scores, and apply different weighting schemes when aggregating environmental, social, and governance information.

This limited agreement is an empirical-research challenge because a study's results may depend materially on which provider's ESG rating is selected as the measure of a firm's sustainability performance. Consequently, researchers must be precise about the construct represented by a particular rating, assess the sensitivity of findings to alternative rating sources where practical, and avoid treating ESG ratings as fully interchangeable observations of one objective attribute. The finding also supports careful interpretation of reported associations between ESG ratings and financial or real-world outcomes. The authors describe this issue as "aggregate confusion," reflecting that ratings with the same ESG label can embody materially different assessments. See the authors' paper, Aggregate Confusion: The Divergence of ESG Ratings, and the related working-paper record.

QUESTION NO: 11

Which of the following requires two audit firms to look at financial statements, rather than the usual one?

A. France

B. Germany

C. United Kingdom

ANSWER: A

Explanation:

France is correct because its statutory audit framework is notably associated with the *joint audit* model. For companies within the relevant scope, particularly those required to prepare consolidated financial statements, two independently appointed statutory auditors (commissaires aux comptes) examine the financial statements and issue a joint audit opinion. The auditors share responsibility for planning and conducting the engagement, perform a balanced allocation of audit work, review one another's work, and reach the audit conclusion jointly. This arrangement is intended to reinforce audit quality and auditor independence by incorporating two separate professional judgments into the statutory audit process. It is therefore distinct from the more common model in which a single audit firm is appointed as the statutory auditor. The French joint-audit requirement is an important feature of the country's corporate-governance and financial-reporting environment and is frequently discussed in sustainable-investing analysis because robust assurance and reliable disclosures support investors' assessment of corporate risks and performance. The French Financial Markets Authority describes the role of statutory auditors in financial reporting oversight, while the French Commercial Code establishes the legal basis for appointing statutory auditors, including the joint-audit framework for applicable consolidated accounts. See the Autorité des marchés financiers' statutory-auditor information and the French Commercial Code.

QUESTION NO: 12

An analyst would most likely increase a company's discount rate if the company:

A. Has strong ESG practices

B. Faces significant environmental litigation

C. Is well-positioned to benefit from ESG opportunities

ANSWER: B

Explanation:

Faces significant environmental litigation is correct because the discount rate should reflect the return investors require for bearing the company's risks. Material environmental litigation can increase uncertainty around future cash flows through legal-defense costs, fines, damages, remediation obligations, operational restrictions, insurance costs, and reputational effects. It may also reveal weaknesses in risk management and create the possibility of further regulatory action or related claims. These factors raise the perceived riskiness of the business and can increase its cost of equity, cost of debt, or both; consequently, an analyst may apply a higher weighted average cost of capital or required rate of return in valuation. Sustainable-investing analysis is therefore relevant not only to estimating expected cash flows but also to assessing the risk characteristics that underpin discount-rate assumptions. CFA Institute's ESG integration framework explains that ESG factors can affect both cash flows and discount rates when they are financially material. The CFA Institute's overview of ESG integration also emphasizes incorporating material ESG information into investment analysis and decision-making. See CFA Institute: ESG Investing and CFA Institute: Guidance and Case Studies for ESG Integration.

QUESTION NO: 13

Which of the following statements about quantitative ESG analysis is most accurate?

A. Quantitative ESG analysis is only based on third-party data

B. The length of the timeseries for ESG data is shorter than for financial data

C. Application programming interfaces (APIs) are used to bring structure to the ESG dataset

ANSWER: B

Explanation:

The length of the timeseries for ESG data is shorter than for financial data is the most accurate statement. Quantitative ESG analysis relies on numerical company-level and portfolio-level measures, but consistent, decision-useful ESG observations generally have a much shorter history than conventional accounting and market data. Financial statements, security prices, and many associated financial variables have been produced under comparatively mature reporting conventions and collected across multiple market cycles. By contrast, broad corporate ESG disclosure, standardized indicator definitions, and systematic third-party coverage have expanded substantially only in more recent years. This means an analyst may have limited historical observations when testing factor relationships, estimating long-horizon models, or assessing ESG performance through differing economic regimes. The challenge is not merely the number of years available: changes in disclosure practices, reporting boundaries, materiality assessments, and data-provider methodologies can also reduce comparability across the available history. Accordingly, robust quantitative work should recognize the shorter and evolving ESG data record, document data choices, and use methods appropriate to those limitations. CFA Institute's Sustainable Investing Certificate identifies ESG data and ESG integration as central analytical topics; its program overview is available at CFA Institute Sustainable Investing Certificate. CFA Institute also discusses the importance of consistent sustainability reporting for investors at Reflections on Sustainability Reporting Standards.

QUESTION NO: 14

Which of the following statements about externalities is most accurate?

A. Externalities are reflected in the prices of commercial goods and services

B. Private costs are higher than societal costs when externalities are negative

C. Measures to internalize externalities can be taken by corporates or governments

ANSWER: C

Explanation:

Measures to internalize externalities can be taken by corporates or governments. An externality arises when an economic activity creates costs or benefits for parties that are not fully captured in the decision-maker's private costs and benefits or in the market price. Internalization means bringing those spillover effects into the decisions of producers, consumers, and investors. Governments can do this through instruments such as carbon taxes, emissions-trading systems, regulation, disclosure requirements, subsidies, or penalties. For example, a carbon price assigns a monetary cost to greenhouse-gas emissions, helping align the private cost of emitting with the wider social damage associated with climate change. Corporates can also act directly by embedding environmental and social impacts into strategy, capital-allocation decisions, product pricing, procurement standards, risk management, and internal carbon pricing. These actions can reduce unpriced harms even where public policy is incomplete. This principle is central to sustainable investing because external environmental and social costs can affect company cash flows, liabilities, valuations, and long-term financial-system stability. The IMF discusses carbon pricing as a mechanism to incorporate climate-related social costs into economic choices in its Fiscal Monitor, while the OECD describes policy approaches for addressing environmental externalities through its environmental taxation work.

QUESTION NO: 15

All else equal, a higher discount rate applied to a companyâ€™s discounted cash flow (DCF) analysis will lead to:

A. a lower estimate of intrinsic value

B. the same estimate of intrinsic value

C. a higher estimate of intrinsic value

ANSWER: A

Explanation:

A higher discount rate applied to a discounted cash flow analysis leads to **a lower estimate of intrinsic value**. DCF valuation converts forecast future cash flows into their value today by dividing each cash flow by a discount factor based on the required rate of return and the number of periods until receipt. Holding the projected cash flows, their timing, and all other assumptions constant, increasing that rate increases the denominator used in the present-value calculation. Each future cash flow therefore has a smaller present value, and the aggregate present value of the firm's cash flows declines.

This relationship is central to valuation because a discount rate reflects both the time value of money and the compensation investors require for bearing risk. For example, if changes in business risk, financing conditions, or investors' required returns justify a higher required return, a DCF model will produce a lower value unless offset by stronger expected cash flows or different assumptions. The effect is especially material for cash flows expected farther in the future, including terminal value, because discounting compounds over time. CFA Institute's overview of the DCF approach is available at CFA Institute: Discounted Dividend Valuation. See also Aswath Damodaran's DCF valuation overview.

QUESTION NO: 16

Compared to older, more established companies, start-up companies most likely:

A. have better systems in place to manage social risks in their supply chain.

B. find it harder to respond when a company with a disruptive business model enters their market.

C. have less effective systems in place to manage social risks in their supply chain and find it easier to respond when a company with a disruptive business model enters their market.

ANSWER: C

Explanation:

"Have less effective systems in place to manage social risks in their supply chain and find it easier to respond when a company with a disruptive business model enters their market" is correct because start-ups generally have fewer financial, personnel, governance, and operational resources to build mature supply-chain due-diligence processes. Social-risk management requires formal policies, supplier screening, monitoring, grievance mechanisms, remediation procedures, and reliable reporting; these systems tend to develop as a company scales and its supply-chain relationships become more established. The OECD's due-diligence framework illustrates the breadth of work needed to identify, prevent, mitigate, and account for adverse impacts in business operations and supply chains. At the same time, start-ups commonly have organizational agility: they usually have less entrenched infrastructure, fewer legacy product lines, and less rigid decision-making. This can enable them to alter products, strategy, technology, or market positioning more rapidly when disruptive competitors emerge. For sustainable investors, this combination matters because limited management of social supply-chain risks can create material operational and reputational exposures, while adaptability can be a strategic advantage in changing markets. See the OECD Due Diligence Guidance for Responsible Business Conduct and the CFA Institute's Sustainable Investing Certificate.

QUESTION NO: 17

The role of auditors is to assess the financial reports prepared by management and to provide assurance that:

A. the numbers are correct

B. there is no fraud within the business.

C. the reports fairly represent the performance and position of the business

ANSWER: C

Explanation:

The reports fairly represent the performance and position of the business is correct because the objective of an external audit is to obtain reasonable assurance that financial statements, considered as a whole, are free from material misstatement, whether caused by fraud or error. The auditor then expresses an opinion on whether those statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. This opinion helps users of financial reports assess whether the reported financial position, financial performance, and cash flows present a fair and reliable depiction of the entity's circumstances. The assurance is "reasonable," not absolute: an audit uses professional judgment, risk assessment, testing, and evidence gathering, and is designed around materiality rather than verification of every individual transaction or number. Management remains responsible for preparing the financial statements and maintaining appropriate internal controls. This distinction is important in sustainable investing as well, because investors rely on credible reporting and assurance to evaluate issuers' financial condition and stewardship. The International Auditing and Assurance Standards Board describes the overarching audit objective in ISA 200, available through the IAASB's ISA 200 page. A further overview of the role and value of audits is provided by the International Federation of Accountants.

QUESTION NO: 18

In the context of effective corporate governance, the use of alternative performance metrics (APMs) most directly raises questions about:

A. Board structure

B. Director independence

C. Reporting and transparency

ANSWER: C

Explanation:

Reporting and transparency is correct because alternative performance metrics (APMs), often also called non-GAAP or adjusted measures, supplement figures prepared under required accounting standards. Their governance significance lies in whether investors can clearly understand what the metric measures, how it is calculated, why management considers it useful, and how it relates to the most directly comparable standardized financial measure. Effective oversight supports consistent definitions across reporting periods, prominent presentation of reconciliations, clear identification of adjustments, and balanced disclosure of limitations. These practices help users assess whether an APM provides decision-useful insight into underlying business performance rather than creating an overly favorable impression through selective exclusions or changing methodologies. Transparent reporting is particularly relevant to sustainable investing because investors may use issuer-reported operational and sustainability-related indicators alongside financial results; comparability, reliability, and contextual explanation are essential to informed stewardship and capital-allocation decisions. The CFA Institute's discussion of ESG disclosure emphasizes the value of consistent, comparable, and decision-useful issuer information, while the International Organization of Securities Commissions identifies transparent definitions, explanations, and reconciliations as core principles for non-GAAP financial measures. See CFA Institute's ESG issues in investment analysis and valuation and IOSCO's statement on non-GAAP financial measures.

QUESTION NO: 19

Exclusionary screening:

A. reduces portfolio tracking error and active share.

B. is the oldest and simplest approach within responsible investment.

C. employs a given ESG rating methodology to identify companies with better ESG performance relative to its industry peers.

ANSWER: B

Explanation:

"is the oldest and simplest approach within responsible investment." is correct. Exclusionary screening, also called negative screening, applies predefined restrictions to remove issuers, sectors, countries, or activities from the investable universe when they do not meet an investor's ethical, values-based, or policy criteria. Common exclusions have historically included activities such as tobacco, weapons, gambling, and fossil fuels, although the precise exclusions depend on the mandate. It is widely regarded as one of the earliest forms of responsible investment because investors can implement it directly through rules that prohibit holdings, without requiring a comparative ESG scoring model, issuer engagement program, or sustainability-outcome assessment. The approach has roots in values-based investing traditions and remains a core sustainable-investment strategy. CFA Institute describes negative screening as excluding companies or sectors from a fund or portfolio based on ESG criteria, while the Principles for Responsible Investment identifies screening as a longstanding responsible-investment approach. The key feature is therefore the application of exclusion rules to define what may not be held. See CFA Institute's ESG investing research and the PRI's introduction to responsible investment.

QUESTION NO: 20

An investor applies a best-in-class approach to a global equity portfolio. The investor's most likely action is to:

A. exclude all sectors with material environmental or social impacts.

B. select issuers with relatively strong ESG performance within each sector while retaining broad sector exposure.

C. invest only in companies whose revenues are derived from a sustainability theme.

ANSWER: B

Explanation:

select issuers with relatively strong ESG performance within each sector while retaining broad sector exposure. Best-in-class selection compares companies with relevant peers and favors stronger ESG performers within a sector or industry. It differs from a negative screen, which excludes issuers or activities that breach specified criteria, and from thematic investing, which concentrates capital in a sustainability-related theme. A best-in-class approach can retain exposure to sectors with material ESG challenges while rewarding comparatively better management of those risks and opportunities.

QUESTION NO: 21

Which of the following is best described as a form of engagement that requires institutions to have a formal agreement with concrete objectives and agreed steps?

A. Concert party

B. Soliciting support

C. Collaborative campaigns

ANSWER: A

Explanation:

Concert party is correct because it describes the most structured form of collective investor engagement. Participating institutions enter into a formal arrangement to act together, establishing a shared purpose, specific engagement objectives, and agreed actions for pursuing those objectives. This structure gives participants a coordinated approach to engaging an investee company, rather than merely exchanging views or independently supporting a broad initiative. The defining feature is the explicit agreement among investors on both what they seek to achieve and how they will act, which is why the description's reference to concrete objectives and agreed steps points directly to a concert party. In stewardship practice, collective engagement can increase investors' ability to obtain access to company decision-makers and communicate a consistent, credible position on material sustainability issues. Institutions undertaking such formal coordination should also consider applicable acting-in-concert, disclosure, competition, and market-conduct requirements in the relevant jurisdiction. The Principles for Responsible Investment discusses collaborative engagement and the practical considerations for investors working together in its Guide to Collaborative Engagement. CFA Institute's sustainable-investing educational materials likewise place active ownership and issuer engagement within the investor toolkit for managing sustainability-related risks and opportunities: Sustainable Investing Certificate.

QUESTION NO: 22

Which of the following statements about social trends is most accurate?

A. Social trends have similar impacts on different sectors

B. The importance of a social trend for a country is independent of the level of its economic development

C. The impact of a social trend on companies within the same sector may differ based on each company ' s culture

ANSWER: C

Explanation:

“The impact of a social trend on companies within the same sector may differ based on each company ' s culture” is the most accurate statement because social factors are assessed not only at the sector level but also through company-specific exposure and management. A shared trend—such as changing workforce expectations, demographic change, consumer preferences, or greater emphasis on diversity and inclusion—can create materially different implications for businesses that appear similar by industry classification. Corporate culture influences leadership decisions, workforce policies, willingness to adapt, stakeholder relationships, and the credibility with which a firm implements change. These characteristics affect both the severity of a social trend’s financial relevance and the company’s capacity to respond to it. For sustainable-investing analysis, an investor should therefore avoid assuming that a sector-level social theme produces uniform outcomes across all constituents. Instead, the investor should evaluate the company’s business model, geographic footprint, employees and other stakeholders, governance of social issues, and evidence that its practices align with its stated culture. This company-specific approach is consistent with CFA Institute’s discussion of material ESG information and integration into investment analysis: CFA Institute Sustainable Investing Certificate. It also aligns with the UN Principles for Responsible Investment’s focus on analysing social issues through corporate practices and human-capital management: UN PRI: Social issues.

QUESTION NO: 23

When tailoring an ESG investment approach to client needs, the primary driver of ESG investment for general insurers is most likely:

A. fiduciary duty.

B. reputational risk.

C. awareness of financial impacts of climate change.

ANSWER: C

Explanation:

awareness of financial impacts of climate change. is correct because general insurers are directly exposed to climate-related financial risk through their underwriting operations as well as their investment portfolios. More frequent and severe weather events can increase claims costs, affect the availability and price of reinsurance, damage insured assets, and change the risk profile of regions, properties, and business activities. These effects make climate change a financially material issue for an insurer’s solvency, profitability, capital management, and long-term business model. Consequently, a general insurer is likely to incorporate ESG considerations—particularly climate-risk analysis—into investment decisions to understand and manage exposures that can affect overall enterprise risk. Climate considerations may include physical risks, transition risks arising from policy and market changes, and the resilience of investee companies and assets under different climate scenarios. The CFA Institute’s sustainable-investing curriculum identifies insurers’ awareness of the financial implications of climate change as an important motivation for their ESG investment approach. The link between climate change and insurance-sector financial stability is also emphasized by the Bank for International Settlements and the Network for Greening the Financial System. See the CFA Institute Sustainable Investing Certificate and the NGFS insurance supervision resources.

QUESTION NO: 24

Which of the following statements regarding the effects of an aging population is most accurate?

A. Older people spend less on consumer goods.

B. The ratio of active to inactive workers increases.

C. Older people have lower accumulated savings per person than younger people.

ANSWER: A

Explanation:

“Older people spend less on consumer goods.” is the most accurate statement because population ageing generally changes both the level and composition of household consumption. As people move beyond their peak working years, they commonly reduce spending on items associated with employment, raising families, housing formation, and durable purchases. Aggregate demand can therefore become less oriented toward many discretionary and goods-intensive categories. This is a material macroeconomic consideration for investors because a rising share of older consumers may affect long-term sector demand, corporate revenue opportunities, and economic growth expectations.

The effect should be understood as a broad demographic tendency rather than a rule for every individual. Consumption patterns vary with income, wealth, public pensions, health status, and local social-support systems. Nevertheless, older households tend to allocate a relatively greater share of expenditure to health care, care services, and other age-related needs, while overall consumption and purchases of some consumer goods are often lower than during prime earning and household-formation stages. The United Nations discusses population ageing and its significant economic and social implications in its World Population Ageing resources. The IMF also examines the macroeconomic consequences of demographic change, including its implications for consumption and growth, in its analysis of changing demographics and economic growth.

QUESTION NO: 25

If a Japanese company ' s board does not have committees, it most likely:

A. Has a cross-shareholding practice.

B. Follows a statutory auditor approach.

C. Is in breach of the national Corporate Governance Code.

ANSWER: B

Explanation:

Follows a statutory auditor approach. Japanese corporate law provides several governance structures, including the traditional “company with a board of company auditors” model. In this structure, oversight is performed by statutory auditors, known as *kansayaku*, and, where required, a board of company auditors. These auditors are separate from directors and have statutory powers to audit directors’ execution of duties, examine the company’s financial reporting, and monitor the legality and appropriateness of management actions. Consequently, a company using this model need not organize its board around the committee structure commonly seen in other markets.

The Japanese Corporate Governance Code expressly recognizes companies with a board of company auditors as one of Japan’s principal institutional governance forms, alongside companies with an audit and supervisory committee and companies with three committees. The absence of board committees therefore commonly indicates use of the statutory-auditor framework rather than an absence of governance oversight. This distinction is important when assessing Japanese issuers because governance analysis should identify which legally recognized board model the company has adopted and how its monitoring functions are allocated. See the Japan Exchange Group corporate-governance resources and the Japan Financial Services Agency corporate-governance materials.

QUESTION NO: 26

New technologies have enabled workers to:

A. improve their work-life balance only.

B. adopt more flexible working patterns only.

C. both improve their work-life balance and adopt more flexible working patterns.

ANSWER: C

Explanation:

“both improve their work-life balance and adopt more flexible working patterns.” is correct because digital technologies—such as cloud-based collaboration platforms, videoconferencing, mobile connectivity, and workflow-management tools—make it possible for many tasks to be performed without workers and colleagues being in the same physical location at the same time. This can support flexible arrangements, including remote, hybrid, asynchronous, and location-independent work.

Flexibility can in turn improve work-life balance by giving workers greater ability to coordinate work with personal responsibilities, reduce commuting time, and adjust working hours where the role and employer's policies permit it. From a sustainable-investing perspective, workforce flexibility is relevant to human-capital management and social factors because it can influence employee wellbeing, engagement, retention, and access to work. The benefit is not automatic or universal: employers need appropriate policies, technology access, management practices, and safeguards around workload and boundaries. Nevertheless, the broad effect of new workplace technologies is to enable both more flexible working patterns and potential improvements in work-life balance. The OECD discusses how teleworking and digital tools can provide flexibility and affect workers' wellbeing in its teleworking report. The International Labour Organization also addresses the work-life-balance implications of remote work in its working-from-home research.

QUESTION NO: 27

Which of the following would most likely see its estimate of intrinsic value increased by analysts?

A. A company with high climate-related risk.

B. A company facing significant environmental regulations.

C. A company having launched a service that reduces customers ' electricity usage.

ANSWER: C

Explanation:

"A company having launched a service that reduces customers ' electricity usage." would most likely receive a higher intrinsic-value estimate because the service can create a commercially meaningful sustainability-related advantage. Customers may experience lower operating costs through reduced electricity consumption, making the offering more attractive, supporting product differentiation, strengthening customer retention, and potentially expanding demand. These effects can improve analysts' expectations for revenue growth, margins, market share, or the duration of competitive advantage.

In an intrinsic valuation, sustainability-related factors matter when they affect the economic inputs to valuation rather than merely reflecting a company characteristic or disclosure label. A product that delivers measurable cost savings to clients can support higher expected future cash flows and, where the advantage is durable, improve the long-term cash-flow profile used in a discounted cash flow or similar valuation model. It may also reduce uncertainty around demand by aligning the company's offering with customers' energy-efficiency needs. CFA Institute's Sustainable Investing Certificate curriculum emphasizes integrating material environmental, social, and governance considerations into financial analysis when they affect financial performance and value. See CFA Institute Sustainable Investing Certificate and CFA Institute ESG investing research.

QUESTION NO: 28

When an external auditor's performance materiality level is 60% of its overall materiality threshold, the auditor most likely:

A. Has a low level of confidence in the company ' s financial controls

B. Will apply tailored audit procedures for the smallest 40% of the company ' s segments

C. Uses a sample that covers 60% of the total number of the company ' s transactions during the financial year

ANSWER: A

Explanation:

Has a low level of confidence in the company ' s financial controls is correct. Overall materiality is the maximum misstatement that could reasonably influence users' decisions based on the financial statements. Performance materiality is set below that overall threshold to reduce the risk that aggregate uncorrected and undetected misstatements exceed overall materiality. Setting performance materiality at 60% of overall materiality is relatively conservative: it leaves a 40% buffer for misstatements that may arise across account balances, transactions, and disclosures. This conservative buffer is appropriate when the auditor assesses a greater risk of material misstatement, including where internal controls are not expected to prevent or detect errors reliably. Lower confidence in the design or operating effectiveness of financial controls therefore leads the auditor to use a lower performance-materiality percentage and obtain more persuasive audit evidence. The percentage is a matter of professional judgment rather than a prescribed universal formula, but the underlying relationship is clear: higher assessed audit risk and weaker control reliance call for lower performance materiality. This approach is consistent with ISA 320’s requirement that auditors determine performance materiality to reduce the probability that total uncorrected and undetected misstatements exceed overall materiality to an appropriately low level. See the IAASB’s ISA 320: Materiality in Planning and Performing an Audit and its auditing standards resources.

QUESTION NO: 29

Regime-switching models for strategic asset allocation:

A. Fail to capture fat tails and skewness

B. Are based on historical data rather than forward-looking data

C. Have the potential to capture dramatic shifts in the investment environment

ANSWER: C

Explanation:

“Have the potential to capture dramatic shifts in the investment environment” is correct because regime-switching models explicitly allow the probability distribution governing asset returns to change across distinct states, or regimes. For strategic asset allocation, these regimes may represent conditions such as expansion versus recession, low versus high volatility, or normal versus stressed financial markets. Each regime can have different expected returns, volatilities, correlations, and transition probabilities. This structure lets the model represent nonlinear behavior and abrupt changes that a single, stable return distribution may overlook. Investors can use the estimated likelihood of each regime, together with its asset-class characteristics, to form long-horizon allocations that recognize the possibility of materially different market environments. This is particularly relevant to sustainable investing where policy changes, physical climate events, technological transitions, and shifts in investor preferences can alter economic and market conditions. The CFA Institute’s Sustainable Investing Certificate covers how sustainability-related factors can be incorporated into investment analysis and portfolio construction; see CFA Institute’s Sustainable Investing Certificate. A foundational discussion of regime shifts in asset allocation is available in Ang and Bekaert’s NBER research on international asset allocation with regime shifts.

QUESTION NO: 30

One of the mam principles of stewardship codes calls for institutional investors to:

A. regularly monitor investee companies

B. avoid considering conflicts of interest regarding stewardship matters.

C. act independently of other investors when escalating stewardship activity

ANSWER: A

Explanation:

“regularly monitor investee companies” is correct because ongoing monitoring is a core element of effective stewardship. Stewardship describes how institutional investors oversee and engage with the companies in which they invest in order to protect and enhance long-term value for beneficiaries. Monitoring gives an investor the information needed to assess corporate strategy, financial and nonfinancial performance, governance, risk management, capital allocation, and material environmental and social matters. It also enables the investor to identify concerns early, decide whether engagement is appropriate, vote informedly, and determine whether escalation is needed when engagement does not achieve sufficient progress. The UK Stewardship Code expressly identifies monitoring issuers and service providers as a stewardship activity and expects signatories to explain how they monitor them. This reflects the broader international approach: stewardship is an active, continuous ownership practice rather than a one-time review. Regular monitoring can be conducted directly by the asset owner or manager, or through appropriately supervised external managers and service providers, but accountability for the stewardship approach remains important. See the UK Financial Reporting Council's Stewardship Code and the Principles for Responsible Investment stewardship resources.

QUESTION NO: 31

In the investment management industry, triple bottom line accounting theory:

A. replaces a broader framework of sustainability.

B. complements a broader framework of sustainability.

C. has been replaced by a broader framework of sustainability.

ANSWER: C

Explanation:

has been replaced by a broader framework of sustainability. Triple bottom line accounting was an influential early approach that expanded corporate performance beyond conventional financial profit to encompass social and environmental considerations—often summarized as people, planet, and profit. In investment management, however, sustainability analysis has developed into a broader and more integrated framework. Rather than treating the three dimensions as separate "bottom lines," current practice considers how sustainability-related factors can affect enterprise value, risks, opportunities, stakeholders, and long-term investment outcomes. This wider approach incorporates environmental, social, and governance considerations, while also recognizing issues such as business-model resilience, materiality, stewardship, and the interconnected effects of corporate activities. The evolution reflects the need for investors to assess sustainability in a manner that is decision-useful and appropriate to the economic context of an issuer, sector, and portfolio. CFA Institute describes sustainable investing as the consideration of environmental, social, and governance factors in investment decisions, consistent with this broader analytical perspective. The historical role of the triple bottom line remains useful for understanding the development of sustainability thinking, but the contemporary sustainability framework used by investment professionals is more comprehensive. See CFA Institute's ESG investing research and the Sustainable Investing Certificate overview.

QUESTION NO: 32

According to the Taskforce on Nature-Related Financial Disclosures (TNFD) Biodiversity Framework, which of the following elements best reflects the close association between climate-related and nature-related risks and opportunities?

A. Land

B. Ocean

C. Atmosphere

ANSWER: A

Explanation:

Land best reflects the close climate–nature association because land-use change sits at the center of both biodiversity loss and climate mitigation or adaptation outcomes. Converting forests, wetlands, grasslands, and other natural ecosystems for agriculture, infrastructure, or extractive activity can destroy or fragment habitats while also releasing stored carbon and reducing the capacity of ecosystems to absorb greenhouse-gas emissions. Conversely, protecting, restoring, and sustainably managing terrestrial ecosystems can support biodiversity, ecosystem resilience, carbon storage, and climate adaptation simultaneously. For an organization, this creates connected financial risks and opportunities: supply-chain exposure to deforestation, declining soil health, water disruption, and regulatory change may coincide with transition opportunities in regenerative agriculture, restoration, and deforestation-free production. TNFD's approach is designed to help organizations assess nature-related dependencies, impacts, risks, and opportunities, including those arising through the climate–nature nexus. Land is therefore a particularly important realm through which the shared drivers and mutually reinforcing consequences of climate and nature issues can be identified and disclosed. TNFD also notes the importance of considering nature across different realms and value-chain locations when conducting assessments. See the TNFD Recommendations and the TNFD assessment guidance.

QUESTION NO: 33

Formal corporate governance codes are most likely to:

A. be found in all major world markets.

B. call for serious consequences for non-compliant organizations.

C. be interpreted by proxy advisory firms when corporate compliance is assessed.

ANSWER: A

Explanation:

“be found in all major world markets.” is correct because formal corporate-governance codes are a widely established feature of capital-market regulation and stewardship frameworks internationally. Although their legal status and detailed provisions vary by jurisdiction, major developed and emerging markets generally have a governance code, listing-rule framework, or comparable set of principles addressing board responsibilities, shareholder rights, disclosure, audit, remuneration, and accountability. These codes provide a recognized benchmark for companies, investors, exchanges, and regulators when evaluating governance practices. Many operate through a principles-based approach, often described as “comply or explain,” which permits companies to depart from a provision where appropriate if they transparently explain the rationale to shareholders. The broad international adoption of such codes reflects the importance of governance to investor protection, market integrity, and confidence in listed companies. The OECD’s globally influential corporate-governance principles provide a common policy foundation that jurisdictions can adapt to their own legal and market structures. The European Corporate Governance Institute also maintains a substantial international repository of governance codes and principles, illustrating their prevalence across markets. See the OECD corporate governance resources and the ECGI codes and principles database.

QUESTION NO: 34

Which of the following ESG integration techniques is an example of policy engagement? An investor:

A. Embedding ESG into their strategic asset allocation program

B. Responding to a regulator’s public consultation on ESG issues

C. Voting on resolutions at an investee company's annual general meeting

ANSWER: B

Explanation:

Responding to a regulator’s public consultation on ESG issues is policy engagement because it seeks to influence the rules, standards, and regulatory conditions that shape investment markets and corporate conduct. Policy engagement operates at a market-wide or system level: rather than focusing only on the practices of one portfolio company, an investor contributes its expertise and views to the development, revision, or implementation of public policy. A consultation response can address such matters as sustainability-related disclosure requirements, stewardship codes, climate-risk reporting, taxonomy design, or other ESG-related regulation. Through this process, investors can encourage policy frameworks that improve the consistency, decision-usefulness, and availability of ESG information across the market, supporting more informed capital allocation and stewardship.

This activity is consistent with the CFA Institute Sustainable Investing Certificate treatment of engagement and stewardship, in which policy engagement includes communicating with policymakers and regulators to help shape the broader policy environment. It also aligns with the Principles for Responsible Investment’s description of policy engagement as investor action intended to influence public policy and regulation relevant to responsible investment. See CFA Institute’s Sustainable Investing Certificate and the PRI’s Policy Engagement Guide.

QUESTION NO: 35

In comparison to institutional investors, the pace of adoption of ESG by retail investors has been:

A. slower.

B. the same.

C. faster.

ANSWER: A

Explanation:

slower. Retail investors have historically adopted ESG investing more slowly than institutional investors. Institutional asset owners and managers were early drivers of ESG integration because they commonly have long investment horizons, formal fiduciary and stewardship processes, substantial analytical resources, and direct pressure from beneficiaries, regulators, and asset-owner clients. These features made it practical to incorporate material environmental, social, and governance considerations into investment research, portfolio construction, engagement, and voting practices. Retail participation has expanded as ESG-labelled funds, digital investment platforms, disclosure rules, and public awareness have become more widespread. Nevertheless, retail investors have generally faced less readily comparable ESG information, more limited access to specialist advice and products, and varying levels of financial and sustainability literacy. The relevant comparison is therefore the historical pace of adoption, rather than whether retail interest in sustainable investing is currently growing. The CFA Institute's Sustainable Investing Certificate curriculum treats investor demand and the development of the sustainable-investment market as important context for understanding how ESG practices have become established across investor types. See the CFA Institute Sustainable Investing Certificate overview and CFA Institute's ESG investing research for further context on ESG integration and investor adoption.

QUESTION NO: 36

In order to safeguard the independence of the external auditor, European Union (EU) regulation:

A. obliges public companies to tender the audit after five years.

B. obliges public companies to change auditors after ten years at most.

C. limits the scale and scope of non-audit services an audit firm may provide to clients.

ANSWER: C

Explanation:

"limits the scale and scope of non-audit services an audit firm may provide to clients" is correct because a central safeguard in the EU statutory-audit framework is to prevent commercial relationships from compromising an auditor's objectivity and independence. For public-interest entity audit engagements, the EU Audit Regulation prohibits an audit firm from providing specified non-audit services to the audited entity, its parent undertaking, or controlled undertakings within the EU. These prohibited services include, subject to defined conditions and exceptions, services such as certain tax, legal, valuation, and internal-audit-related work. The framework also places a cap on permissible non-audit fees: where allowable non-audit services are provided, their fees generally cannot exceed 70% of the average statutory-audit fees paid over the preceding three consecutive financial years. These restrictions directly address self-review, advocacy, management-participation, and financial self-interest threats that may arise when the statutory auditor also sells consulting or other services to its audit client. The European Commission describes the rules as measures intended to reinforce auditor independence and improve audit quality. See the EU Audit Regulation (Regulation (EU) No 537/2014), particularly Article 5, and the European Commission's auditing and company-reporting overview.

QUESTION NO: 37

Which of the following statements about green bonds and sustainability-linked bonds (SLBs) is most accurate?

A. A global consensus exists on the types of capital projects that fit in the scope of green bonds

B. Green bonds allow issuers more flexibility in achieving sustainability targets compared to SLBs

C. Issuers of SLBs agree to pay a higher coupon to investors if they fail to achieve a sustainability-linked target

ANSWER: C

Explanation:

"Issuers of SLBs agree to pay a higher coupon to investors if they fail to achieve a sustainability-linked target" is correct because sustainability-linked bonds are general-purpose financing instruments whose financial characteristics are tied to the issuer's achievement of predefined sustainability performance targets. These targets are measured through key performance indicators and assessed at specified observation dates. A common structural feature is a coupon step-up: if the issuer does not meet the relevant target, the coupon payable to bondholders increases. This creates a direct financial incentive for the issuer to deliver the stated sustainability outcome and compensates investors for the issuer's failure to meet that commitment. The exact consequence is set in the bond documentation and can include other financial or structural changes, but a higher coupon following a missed target is the standard and most recognizable SLB mechanism. The International Capital Market Association's Sustainability-Linked Bond Principles describe SLBs as instruments for which financial and/or structural characteristics vary depending on whether the issuer achieves predefined sustainability objectives. See the ICMA Sustainability-Linked Bond Principles and CFA Institute's Sustainable Investing Certificate overview.

QUESTION NO: 38

A hurdle to adopting ESG investing is most likely a:

A. lack of suitable benchmarks.

B. focus on short-term performance.

C. lack of options outside of equities.

ANSWER: B

Explanation:

"focus on short-term performance" is a key hurdle because many sustainability-related risks and opportunities emerge over longer time horizons than those used in conventional manager evaluation, portfolio reporting, and incentive structures. Climate-transition exposure, physical climate risks, human-capital practices, supply-chain resilience, and governance quality can affect cash flows, discount rates, and asset values progressively rather than producing an immediate quarterly result. If asset owners assess managers primarily against short-term benchmark returns, managers may have less practical latitude to incorporate ESG considerations whose investment relevance is expected to develop over several years. This time-horizon mismatch can therefore discourage adoption even where ESG factors are financially material and relevant to long-term risk-adjusted returns. CFA Institute identifies the consideration of ESG issues as part of investment analysis and decision making, requiring investors to assess how such issues can affect an investment's risk and return profile over an appropriate horizon. Its discussion of ESG integration also recognizes that implementation depends on investment beliefs, mandates, processes, and measurement practices. The CFA Institute's ESG Integration in Europe, the US, and Asia Pacific report and the Principles for Responsible Investment's discussion of long-term thinking provide useful context for this horizon-related implementation challenge.

QUESTION NO: 39

When assessing environmental risks, asset managers should use:

A. qualitative approaches only.

B. quantitative approaches only.

C. both qualitative approaches and quantitative approaches.

ANSWER: C

Explanation:

Both qualitative approaches and quantitative approaches are needed because environmental risk assessment is inherently multidimensional. Quantitative indicators—such as greenhouse-gas emissions, carbon intensity, energy and water consumption, waste generation, pollution incidents, and estimated exposure to carbon prices—help an asset manager measure exposures, compare issuers, track trends, and incorporate financially material environmental factors into valuation and risk models. However, data alone may not fully capture the quality of an issuer's environmental-risk management, its governance and strategic preparedness, the credibility of transition plans, or risks that are emerging but not yet reflected in reported metrics. Qualitative analysis addresses these issues through assessment of policies, oversight, disclosures, management capability, business-model resilience, and the company's response to relevant environmental regulation and stakeholder expectations. Used together, these methods provide a more decision-useful view: quantitative evidence establishes the scale and direction of exposure, while qualitative judgement supplies necessary context on how effectively that exposure is governed and managed. This integrated approach is consistent with CFA Institute's discussion of ESG analysis as combining ESG data with contextual, company-specific analysis, and with the TCFD framework's emphasis on governance, strategy, risk management, and metrics and targets. See CFA Institute ESG Integration research and the TCFD recommendations.

QUESTION NO: 40

A bond that funds offshore wind projects is most likely a:

A. Blue bond

B. Green bond

C. Transition bond

ANSWER: B

Explanation:

Green bond is correct because its proceeds are earmarked for projects with clear environmental benefits. Offshore wind generation is a renewable-energy activity that displaces electricity produced using fossil fuels and supports climate-change mitigation, placing it squarely within the common eligible project categories for green financing. The International Capital Market Association's Green Bond Principles identify renewable energy as one of the core categories of eligible green projects. Issuers may use green bonds to finance or refinance the construction, operation, transmission connection, or related infrastructure of offshore wind farms, subject to the issuer's green-finance framework and reporting commitments. The defining feature is the use of proceeds: funds are dedicated to environmentally sustainable projects rather than general corporate purposes. This classification reflects the widely used market taxonomy for labelled sustainable debt and is consistent with CFA Institute sustainable-investing materials describing green bonds as instruments used to finance projects that deliver environmental benefits. See the International Capital Market Association Green Bond Principles and CFA Institute's Sustainable Investing Certificate overview.

QUESTION NO: 41

Which of the following statements regarding the impact of social issues on potential investment opportunities is most accurate?

A. Social trends impact sectors differently.

B. Companies within a sector are exposed to social factors in the same way.

C. Analyzing which social topics are material from an investment point of view starts with understanding materiality at the company level.

ANSWER: A

Explanation:

Social trends impact sectors differently. Social factors—including labor standards, workforce health and safety, diversity and inclusion, customer welfare, product safety, data privacy, and community relations—create investment risks and opportunities through sector-specific business models, stakeholder relationships, and regulatory exposure. For example, labor practices and supply-chain human-rights management can be especially decision-useful in consumer-facing and labor-intensive industries, whereas customer privacy and data security can be particularly significant for businesses whose operations depend on collecting and using personal data. In healthcare-related industries, affordability, access, product quality, and responsible marketing may have substantial implications for revenues, reputation, litigation exposure, and long-term stakeholder trust.

Accordingly, an investor’s social analysis should identify the issues most likely to affect enterprise value within the relevant industry and then assess the company’s specific exposure, policies, performance, and capacity to manage those issues. This sector-aware approach helps distinguish broad social trends from the financially material channels through which they may influence cash flows, cost of capital, operational continuity, and valuation. The SASB materiality framework organizes sustainability topics by industry, illustrating why the likely investment relevance of social matters is not uniform across sectors. See the SASB Materiality Finder and CFA Institute’s Sustainable Investing Certificate information.

QUESTION NO: 42

Divesting carbon-intensive energy assets would most likely have an effect on a portfolio ' s:

A. Income yield only

B. Transition risk only

C. Income yield and transition risk

ANSWER: C

Explanation:

“Income yield and transition risk” is correct because divesting carbon-intensive energy assets changes both the portfolio’s exposure to climate-transition-related financial risks and its potential income characteristics. Carbon-intensive energy businesses may face material transition risk as climate policy, carbon pricing, technology, consumer demand, and capital allocation shift toward lower-carbon alternatives. Reducing exposure to these assets can therefore reduce the portfolio’s sensitivity to adverse repricing or impairment associated with the transition to a lower-carbon economy. At the same time, traditional energy companies have often contributed relatively high cash flows and dividend payments to portfolios. Removing or reducing these holdings may consequently lower the portfolio’s income yield, depending on the securities sold and the assets used as replacements. This is an important portfolio-construction trade-off: a sustainability objective can affect conventional financial characteristics, rather than operating separately from them. CFA Institute’s sustainable-investing curriculum addresses transition risk as a component of climate-related risk and emphasizes evaluating the financial effects of sustainability-related decisions on portfolio risk and return. See CFA Institute’s ESG investing research and resources and the IFRS Foundation’s overview of sustainability-related financial disclosures.

QUESTION NO: 43

The triple bottom line accounting theory considers people, profit, and:

A. planet

B. efficiency.

C. licence to operate

ANSWER: A

Explanation:

The correct completion is **planet**. Triple bottom line accounting is a sustainability framework that evaluates organizational performance through three interdependent dimensions: economic prosperity (profit), social responsibility (people), and environmental stewardship (planet). Coined by John Elkington, the framework broadens conventional accounting’s focus beyond financial returns alone. Its environmental dimension considers how an organization affects natural systems through matters such as greenhouse-gas emissions, energy and water use, waste, pollution, biodiversity, and resource depletion. Considering planet alongside people and profit helps investors and companies identify sustainability-related impacts, dependencies, risks, and opportunities that may not be captured by traditional financial metrics. In sustainable investing, this broader perspective supports analysis of how corporate practices and long-term value creation relate to stakeholders and the environment. The three-part formulation is widely recognized as “people, planet, profit.” See the CFA Institute introduction to ESG investing for the role of environmental and social considerations in investment analysis, and the Harvard Business Review discussion by John Elkington for background on the triple bottom line concept.

QUESTION NO: 44

The datasets used by index-based ESG approaches most likely:

A. offer comparability and regional breadth.

B. lack history across multiple economic cycles.

C. are derived from mandatory ESG disclosures.

ANSWER: B

Explanation:

The correct answer is *“lack history across multiple economic cycles.”* Index-based ESG approaches depend on data inputs such as ESG ratings, company-reported metrics, controversies, exclusions, and sector or issuer classifications. Although the volume and coverage of these data have expanded rapidly, consistent ESG datasets are comparatively recent. Methodologies, reporting frameworks, materiality assessments, and issuer disclosure practices have also changed substantially over time. Consequently, a dataset may not provide a sufficiently long, stable series for assessing how an ESG-screened or ESG-tilted index would have behaved through several distinct market environments, including periods of expansion, recession, inflation shocks, and financial stress.

This limitation matters when constructing, selecting, and evaluating an index because back-tested results may rely on incomplete histories, estimated observations, or data that were not available to investors at the relevant historical date. A shorter history increases model risk and reduces confidence that observed factor exposures, tracking characteristics, or risk-adjusted performance will persist. CFA Institute highlights data availability, consistency, and comparability as central ESG-data challenges, while its ESG standards work emphasizes the importance of transparent and reliable sustainability-related information. See CFA Institute’s ESG Issues in Investment Analysis and Valuation and the CFA Institute Sustainability-Related Disclosures resources.

QUESTION NO: 45

Which of the following social factor scenarios is most likely to affect revenue forecasting?

A. Consumer boycotts related to controversial sourcing

B. Fines related to occupational health and safety failures

C. High employee turnover related to poor human capital management

ANSWER: A

Explanation:

Consumer boycotts related to controversial sourcing is the scenario most likely to affect revenue forecasting because it can directly and rapidly change customer demand. Controversial sourcing—for example, concerns involving labor practices, human rights, supplier treatment, or community impacts—can damage consumers’ perception of a brand. If customers respond by avoiding the company’s products or encouraging others to do so, expected unit sales, market share, pricing power, and customer retention may decline. These are core revenue-model inputs, so an analyst may need to revise sales-volume assumptions, growth rates, product-mix expectations, and potentially the timing of revenue recognition forecasts.

The effect can be particularly material for consumer-facing companies whose brand value and purchasing decisions depend heavily on trust. A boycott may also spread quickly through media coverage and social networks, increasing the likelihood that a sourcing controversy produces a measurable change in demand during the forecast horizon. In ESG-integrated financial analysis, social issues are assessed through the channels by which they affect financial performance. Customer behavior and reputational effects are therefore relevant when estimating future revenues. CFA Institute’s Sustainable

Investing Certificate curriculum emphasizes identifying financially material ESG factors and incorporating their effects into investment analysis and valuation. See the [CFA Institute Sustainable Investing Certificate]() and CFA Institute's overview of [ESG investing research]().

QUESTION NO: 46

The change that occurs when new digital technologies and business models affect the value proposition of existing goods and services best describes:

A. automation.

B. digital disruption.

C. artificial intelligence.

ANSWER: B

Explanation:

digital disruption. is correct because it describes a market-level change in which digital technology and digitally enabled business models reshape how an existing product or service creates, delivers, or captures value. The defining feature is not simply that an organization adopts a new technology; rather, the technology changes the established value proposition and can alter customer expectations, competitive advantages, channels of distribution, pricing, or the economics of an industry. For sustainable investors, this is a financially material theme because disruption can create growth opportunities for companies that successfully develop scalable digital offerings, while posing transition and competitive risks for incumbents whose business models depend on legacy products, processes, or distribution systems. Digital disruption may be enabled by technologies such as artificial intelligence, data analytics, cloud computing, connectivity, and automation, but the term encompasses the broader transformation in the market and business model. This framing is consistent with CFA Institute's Sustainable Investing Certificate curriculum, which considers technology-related structural changes as part of the analysis of sustainability themes and their investment implications. See CFA Institute's Sustainable Investing Certificate curriculum overview and its discussion of fintech and the future of finance.

QUESTION NO: 47

Avoiding long-term transition risk can most likely be achieved by:

A. investing in companies with stranded assets.

B. divesting highly carbon-intensive investments in the energy sector.

C. reducing exposure to companies exposed to extreme weather events.

ANSWER: B

Explanation:

Divesting highly carbon-intensive investments in the energy sector is the most direct way to reduce long-term transition risk because transition risk arises from the economic adjustment to a lower-carbon economy. That adjustment can include tighter emissions regulation, carbon taxes or emissions-trading schemes, technological substitution, changing consumer demand, and changing investor expectations. Businesses whose revenues, reserves, operating models, or capital expenditure depend heavily on high-carbon fuels may face declining asset values, higher compliance costs, reduced demand, or impaired access to capital as the transition progresses.

Reducing or removing exposure to highly carbon-intensive energy holdings lowers the portfolio's sensitivity to these structural repricing pressures. In particular, it can reduce exposure to assets that may become uneconomic before the end of their expected useful lives, often described as stranded-asset risk. The approach is especially relevant to long-horizon investors because many policy and technology changes unfold over years rather than immediately. CFA Institute identifies climate-related transition risks as risks associated with policy, legal, technology, market, and reputational changes during the move to a lower-carbon economy. The Task Force on Climate-related Financial Disclosures likewise treats transition risk as a core climate-related financial risk category. See [CFA Institute ESG investing research] and [the TCFD resources hosted by the IFRS Foundation].

QUESTION NO: 48

When accounting for a critical weakness in a company's environmental management process, an analyst using a discounted cash flow (DCF) valuation model should:

A. decrease the cost of capital.

B. not change the cost of capital.

C. increase the cost of capital.

ANSWER: C

Explanation:

increase the cost of capital. A critical weakness in environmental management is a financially material risk factor when it can expose the company to uncertain or adverse future outcomes, including regulatory penalties, remediation obligations, operating disruptions, loss of permits or customers, litigation, and reputational damage. In a DCF model, the discount rate represents the return that capital providers require for bearing the risk of the projected cash flows. If environmental-management weaknesses increase the riskiness of those cash flows or investors' required risk premium, the analyst should reflect that incremental risk in a higher cost of capital, all else equal.

This adjustment reduces the present value assigned to future cash flows and therefore incorporates the fact that a dollar of forecast cash flow from a company with significant unmanaged environmental exposure is less certain than an otherwise comparable cash flow. The assessment should be evidence-based and proportionate: analysts should identify the specific exposure, determine its likely financial materiality, and avoid double counting risks that have already been explicitly incorporated through lower expected revenues, higher operating costs, capital expenditures, or contingent liabilities. CFA Institute's Sustainable Investing Certificate emphasizes integrating financially material sustainability information into investment analysis and valuation. See [CFA Institute's Sustainable Investing Certificate] and [CFA Institute research on ESG integration].

QUESTION NO: 49

Elements of ESG integration include adjusting:

A. Financial forecasts only

B. Valuation multiples only

C. Both financial forecasts and valuation multiples

ANSWER: C

Explanation:

Both financial forecasts and valuation multiples is correct because ESG integration systematically incorporates material environmental, social, and governance information into conventional investment analysis and valuation. Material ESG factors can affect a company's expected revenues, operating costs, capital expenditure, working-capital needs, asset lives, liabilities, and long-term cash-flow growth. Analysts therefore reflect these effects in the financial forecasts that underpin valuation models. For example, expected carbon costs, physical climate exposure, product-safety issues, labor practices, or governance quality may alter projected margins, investment requirements, or the durability of earnings.

ESG information may also affect the valuation assumptions applied to those forecasts. A company's exposure to material sustainability-related risks and opportunities can influence assessed business quality, growth durability, risk, financing conditions, and the multiple that investors are willing to assign to its earnings or cash flows. Accordingly, integration is not a separate values-based screen; it is an analytical process that can require changes to both forecast inputs and valuation parameters when the information is financially material. CFA Institute describes ESG integration as the explicit and systematic inclusion of ESG issues in investment analysis and investment decisions. See CFA Institute's ESG investing research and the Sustainable Investing Certificate curriculum overview.

QUESTION NO: 50

Which of the following statements is most accurate? For ESG credit scoring, credit rating agencies test how ESG factors affect an issuer ' s:

A. cost of capital.

B. credit default swaps.

C. qualification to issue green bonds.

ANSWER: A

Explanation:

cost of capital. is the most accurate answer. ESG credit analysis considers whether environmental, social, or governance factors could materially influence an issuer's creditworthiness. In practice, this means assessing the potential effects of ESG-related risks and opportunities on operating performance, cash-flow generation, asset values, funding access, financial obligations, and the issuer's capacity and willingness to repay debt. A credit rating expresses the market's assessment of relative credit risk. That assessment is closely connected to the borrowing terms investors demand: where ESG factors affect expected financial resilience or repayment risk, they can affect the yield required by lenders and, consequently, the issuer's cost of debt and broader cost of capital. The analysis is therefore financially material rather than a separate ethical or impact assessment. This treatment is consistent with the Sustainable Investing Certificate's focus on integrating material sustainability information into conventional investment analysis and valuation. See the CFA Institute Sustainable Investing Certificate and S&P Global Ratings' discussion of how ESG factors are integrated into credit ratings.

QUESTION NO: 51

Poor corporate governance in the form of weak accountability and alignment increases the risk of value erosion for:

A. Public finance initiatives only

B. Private equity investments only

C. Both public finance initiatives and private equity investments

ANSWER: C

Explanation:

Both public finance initiatives and private equity investments is correct because accountability and alignment are fundamental governance mechanisms wherever capital is allocated and decisions are delegated. In public finance initiatives, weak accountability can impair oversight of public funds, procurement, project delivery, and the achievement of intended economic or social outcomes. Clear responsibility, transparent reporting, and effective controls help ensure that decision-makers act in the interests of the public beneficiaries and that resources are used for their designated purposes. In private equity investments, governance is especially material because investors commonly rely on boards, management incentives, reporting rights, and active ownership to protect and build enterprise value. Alignment between owners, boards, executives, and other stakeholders helps ensure that strategic decisions and remuneration incentives support sustainable long-term value creation. Where these mechanisms are weak, agency conflicts, ineffective monitoring, poor capital allocation, and operational failures can erode value in either setting. The CFA Institute describes governance as a core ESG consideration relevant to investment analysis and stewardship, while the OECD emphasizes accountability, transparency, and effective oversight in public governance. See CFA Institute ESG Investing research and the OECD public governance resources.

QUESTION NO: 52

Determining which ESG issues are material:

A. Involves judgment

B. Excludes impacts on short-term financial performance

C. Is a process that is independent of a company's industry and business model

ANSWER: A

Explanation:

Involves judgment is correct because ESG materiality assessment requires an informed evaluation of whether a sustainability-related issue could reasonably affect a company’s financial performance, enterprise value, access to capital, or risk profile. This cannot be determined mechanically from a universal checklist. Analysts and companies must consider the nature, scale, likelihood, and time horizon of potential effects, along with the company’s specific activities, geographical footprint, stakeholders, strategy, and regulatory environment. Materiality may also evolve as business conditions, scientific evidence, market expectations, and regulation change.

CFA Institute’s sustainable-investing framework emphasizes that financially material ESG factors are identified in the context of a particular issuer and investment decision. Industry and business-model relevance are important inputs, but professional judgment is needed to assess the magnitude and probability of each factor’s financial consequences and to distinguish significant issues from less decision-useful information. Material ESG considerations can affect both near-term and longer-term financial outcomes; therefore, an appropriate assessment considers relevant time horizons rather than applying an automatic short-term exclusion. The Sustainability Accounting Standards Board’s industry-based standards similarly support consistent identification of sustainability matters that are reasonably likely to affect financial performance. See CFA Institute’s ESG investing research and the SASB Standards.

QUESTION NO: 53

With respect to ESG integration, adjusting financial model inputs based on an evaluation of a company’s ESG risk factors is an example of a:

A. hybrid approach

B. qualitative approach.

C. quantitative approach

ANSWER: C

Explanation:

The correct answer is **quantitative approach**. In ESG integration, a quantitative approach explicitly incorporates material ESG information into the numerical assumptions and variables used for valuation, forecasting, and risk models. After evaluating a company’s ESG risk factors, an analyst may adjust revenue-growth assumptions, operating costs, capital-expenditure requirements, margins, asset lives, discount rates, terminal values, probabilities of specific outcomes, or other model inputs. For example, expected carbon costs may affect future operating expenses, weak labor practices may alter assumptions about turnover or productivity, and governance concerns may influence the risk premium used in a discounted cash flow valuation. The essential feature is that the ESG assessment produces a measurable modification to a financial-model input or output, allowing its anticipated financial effect to be reflected directly in estimated value or risk. CFA Institute describes ESG integration as the systematic and explicit inclusion of material ESG factors in investment analysis and decisions. This can include incorporating ESG considerations in financial analysis where they are relevant to a company’s financial performance. Further discussion of practical ESG integration techniques is available from CFA Institute and the Principles for Responsible Investment.

QUESTION NO: 54

Insurers face risk from climate change impacting:

A. Their assets only.

B. Their liabilities only.

C. Both their assets and their liabilities.

ANSWER: C

Explanation:

Both their assets and their liabilities is correct because climate change creates financially material exposures on both sides of an insurer's balance sheet. On the asset side, insurers' investment portfolios can be affected by physical risks, such as damage to property or infrastructure, and by transition risks, including changing regulation, technology, and market valuations that affect issuers and sectors. These effects can reduce investment values, increase credit risk, and alter the availability or pricing of assets. On the liability side, more frequent or severe weather-related events can increase the frequency and severity of insured losses, particularly in property and casualty business. Climate change can also affect mortality, morbidity, business interruption, and liability exposures, depending on the insurer's lines of business. Insurers therefore need integrated climate-risk management spanning investment processes, underwriting, pricing, reserving, capital assessment, and scenario analysis. This balance-sheet perspective is consistent with supervisory guidance that identifies climate-related financial risks as affecting both insurers' assets and their underwriting liabilities. See the IAIS Issues Paper on Climate Change and the Insurance Sector and the NGFS Guide for Supervisors.

QUESTION NO: 55

A company's Scope 2 emissions are:

A. emissions from purchased energy.

B. direct emissions from core operations.

C. emissions produced by suppliers and customers.

ANSWER: A

Explanation:

emissions from purchased energy. is correct because Scope 2 comprises indirect greenhouse gas emissions associated with the generation of energy that an organization purchases or acquires and consumes. This includes purchased or acquired electricity, steam, heat, and cooling. Although the emissions physically arise at the facility that generates the energy, they are reported by the consuming company as Scope 2 because its energy demand causes those generation-related emissions to be attributed to its operations under the GHG Protocol inventory framework.

Scope 2 reporting helps investors and other stakeholders assess a company's exposure to the carbon intensity, price, availability, and procurement characteristics of the energy it uses. It is especially relevant for businesses whose operations rely heavily on grid electricity or district heating and cooling. The GHG Protocol Scope 2 Guidance also establishes location-based and market-based reporting approaches. The location-based method reflects average emissions intensity for the grids where consumption occurs, while the market-based method reflects qualifying contractual instruments, such as renewable electricity certificates or power purchase agreements. These methods make purchased-energy emissions more transparent and comparable for decision-useful climate analysis. See the GHG Protocol Scope 2 Guidance and its Scope 2 Guidance publication.

QUESTION NO: 56

Which of the following best supports a companyâ€™s claim to a commitment to internal social factors?

A. It supports freedom of association through a pro-union stance

B. It incurs increased costs to avoid sourcing raw materials from a conflict zone

C. It was the first in its industry to incorporate fire-resistant materials in its products

ANSWER: A

Explanation:

It supports freedom of association through a pro-union stance is the strongest evidence of commitment to internal social factors because it concerns the company's direct relationship with, and treatment of, its own employees. Internal social analysis considers workforce-related issues such as labour rights, working conditions, employee engagement, diversity and inclusion, human-capital development, and the mechanisms through which workers can express concerns or negotiate collectively. A pro-union stance supports workers' ability to organize and participate in collective bargaining, which are fundamental labour rights and meaningful indicators of employee voice and workplace governance. Respect for freedom of association is embedded in internationally recognized human-rights standards, including the International Labour Organization's core conventions and the UN Guiding Principles on Business and Human Rights. In sustainable-investing analysis, evidence that a company protects these rights can therefore substantiate claims about its management of internal social risks and opportunities, including employee relations, retention, morale, and operational resilience. The CFA Institute frames social considerations as encompassing a company's relationships with employees and other stakeholders; workforce practices are consequently central to assessing internal social performance. See the ILO guidance on freedom of association and collective bargaining and the UN Guiding Principles on Business and Human Rights.

QUESTION NO: 57

Green bonds:

A. fund projects with environmental benefits.

B. have to be certified in line with the Green Bond Principles.

C. are issued by publicly traded firms to exit polluting businesses.

ANSWER: A

Explanation:

"fund projects with environmental benefits" is correct because green bonds are fixed-income instruments whose proceeds are allocated exclusively to eligible projects with clear environmental benefits. In the commonly used Green Bond Principles framework, this is described as a "use of proceeds" bond: issuers identify eligible green project categories and provide information on how proceeds are managed and allocated. Typical eligible categories include renewable energy, energy efficiency, pollution prevention and control, environmentally sustainable management of natural resources, biodiversity conservation, clean transportation, sustainable water management, climate-change adaptation, and green buildings.

The defining feature is therefore the intended environmental use of the bond proceeds, rather than the issuer's industry, ownership structure, or a particular corporate-transition objective. Green bonds can be issued by governments, supranational organizations, financial institutions, and companies, provided the financing is directed toward eligible green projects and the issuer follows the relevant disclosure and reporting practices. The Green Bond Principles are voluntary process guidelines that promote transparency, disclosure, and integrity in the green-bond market. See the International Capital Market Association's Green Bond Principles and its sustainable bond principles overview.

QUESTION NO: 58

Excluding tobacco from the investment universe is an example of which of the following ESG screening approaches?

A. Universal exclusion

B. Idiosyncratic exclusion

C. Conduct-related exclusion

D. Product-related exclusion

ANSWER: D

Explanation:

Product-related exclusion is correct because tobacco is screened out on the basis of the product that an issuer makes or sells. This negative-screening approach removes companies associated with specified products or services from the eligible investment universe, typically where those products conflict with an investor's ethical values, policy commitments, stakeholder expectations, or sustainability objectives. Tobacco is a standard example because its inclusion does not depend on a company-specific incident, controversy, or breach of a conduct standard; the defining feature is its involvement in the tobacco product category itself. In practice, a product-related screen needs clear implementation rules, such as whether the exclusion covers manufacturers only or also distributors, retailers, suppliers, and companies exceeding a stated revenue threshold. These details make the screen investable and allow consistent monitoring as company business lines change. CFA Institute's Sustainable Investing Certificate curriculum addresses exclusionary screening as a sustainable-investment approach and distinguishes the basis on which securities may be excluded. See the CFA Institute Sustainable Investing Certificate and CFA Institute's overview of ESG investing research.

QUESTION NO: 59

Which of the following is most likely to cast doubt on a director's independence?

A. Holding cross-directorships

B. Receipt of director ' s fees from the company

C. Serving as a director for a relatively short period of time

ANSWER: A

Explanation:

Holding cross-directorships is most likely to cast doubt on a director's independence. A cross-directorship commonly arises where directors of two companies sit on each other's boards, creating reciprocal professional relationships. These arrangements can create an actual or perceived obligation to support a fellow director or management team, rather than exercising fully objective oversight and independent judgment on behalf of shareholders. Independence is not merely a matter of formal employment status; it also requires that a director be free of relationships or circumstances that could reasonably be expected to influence, or appear to influence, their decisions. Reciprocal board appointments may therefore weaken the board's ability to challenge management, assess performance, determine remuneration, or make decisions involving related commercial interests without undue influence. Corporate-governance frameworks stress the value of objective board judgment and robust independence assessments because these support effective oversight, accountability, and protection of shareholder interests. The OECD's corporate-governance principles discuss the need for boards to exercise objective independent judgment, while the UK Corporate Governance Code identifies relationships and circumstances that may compromise, or appear to compromise, independence. See the G20/OECD Principles of Corporate Governance and the UK Corporate Governance Code.

QUESTION NO: 60

For a pension plan, the primary driver of ESG investment is most likely:

A. Fiduciary duty.

B. Loss aversion.

C. Personal ethics of its members.

ANSWER: A

Explanation:

Fiduciary duty is the primary driver of ESG investment for a pension plan. Pension trustees and investment fiduciaries must manage assets in beneficiaries' best interests, generally over long time horizons. This requires them to identify, assess, and manage risks and opportunities that could materially affect the plan's ability to pay promised benefits. Environmental, social, and governance factors can influence issuers' cash flows, cost of capital, asset values, regulatory exposure, and long-term resilience. Therefore, considering financially material ESG information is consistent with prudent investment practice and the duty of care owed to beneficiaries; it is not necessarily an expression of the personal preferences of individual members or trustees.

CFA Institute's sustainable-investing curriculum treats fiduciary duty as a central institutional motivation for ESG integration, particularly where investors have long-dated liabilities such as pension obligations. The CFA Institute also notes that ESG factors may be relevant to investment analysis when they are material to risk and return. In practice, the precise legal formulation of fiduciary duty differs across jurisdictions and governing documents, but the core responsibility remains acting prudently and loyally for beneficiaries. See the CFA Institute ESG investing resources and the UNEP FI report on fiduciary duty in the 21st century.

QUESTION NO: 61

A discount retailer facing a consumer boycott due to its poor working conditions will most likely face:

A. significant liabilities

B. greater operating costs

C. an adverse impact on revenues

ANSWER: C

Explanation:

The correct answer is **"an adverse impact on revenues."** A consumer boycott is a stakeholder response in which customers deliberately stop, reduce, or redirect their purchases because they object to a company's practices. In this case, concerns about poor working conditions can damage the retailer's reputation and reduce consumer trust, causing fewer store visits, lower transaction volumes, and potential loss of market share to competitors perceived as more responsible employers. Those effects are transmitted directly to sales and therefore to revenue. For a discount retailer, whose business model commonly depends on high sales volumes and thin margins, even a relatively modest reduction in customer demand can have a material financial effect. This illustrates how a social issue can create a financially material business risk through the revenue channel: workforce practices affect stakeholder perceptions, which affect customer behavior and ultimately the company's financial performance. CFA Institute's sustainable-investing framework recognizes that environmental and social issues may be financially material when they influence a company's revenues, costs, assets, liabilities, or cost of capital. See CFA Institute's ESG investing research and resources and the IFRS Sustainability Standards Navigator for further context on sustainability-related risks and enterprise value.

QUESTION NO: 62

With respect to exclusion policies, which of the following falls outside of the traditional spectrum of responsible investment?

A. Indices

B. Listed equities

C. Corporate debt

ANSWER: A

Explanation:

Indices is correct because an exclusion policy is traditionally an investment-universe or portfolio-construction rule: an investor decides not to hold securities issued by entities, sectors, or activities that breach specified criteria. This can be implemented directly in holdings such as listed shares and corporate bonds, where the investor or manager can screen issuers and remove ineligible securities from the investable universe. CFA Institute describes exclusions as a commonly used sustainable-investing approach and notes that they can be applied through investment mandates and portfolio decisions. See CFA Institute's overview of ESG investing research and resources.

An index, by contrast, is ordinarily a benchmark or rules-based measure of a defined market rather than an asset class in which the investor directly takes a position. Investors may use a conventional index as a performance comparator, or may choose a specially designed ESG or screened index for passive implementation. However, the index itself falls outside the traditional direct-holdings spectrum to which an exclusion policy is applied. The policy instead operates on the securities included in a portfolio or, in passive strategies, on the methodology used to construct a screened benchmark. This distinction is consistent with CFA Institute's discussion of sustainable-investing approaches and implementation considerations in its Sustainable Investing Certificate materials.

QUESTION NO: 63

The World Bank ' s World Governance Indicators dataset includes rankings on:

A. rule of law.

B. credit rating.

C. the government debt to GDP ratio.

ANSWER: A

Explanation:

rule of law. is correct because it is one of the six governance dimensions measured by the World Bank's Worldwide Governance Indicators (WGI). The rule-of-law indicator captures perceptions of the extent to which people and institutions have confidence in, and comply with, society's rules. Its underlying sources address issues such as the quality of contract enforcement, property-rights protection, the police and courts, and the likelihood of crime and violence. These measures are particularly relevant in sustainable-investing analysis because governance conditions can influence the reliability of institutions, enforcement of environmental and social regulation, protection of investors' and stakeholders' rights, and the broader operating environment for businesses. The WGI compiles information from numerous survey institutes, think tanks, nongovernmental organizations, international organizations, and private-sector firms. It reports governance estimates and accompanying percentile ranks for countries and territories across six dimensions, allowing users to assess relative governance performance as well as uncertainty around estimates. The World Bank identifies rule of law explicitly as a core WGI dimension in its Worldwide Governance Indicators overview and provides the underlying methodology and data through its WGI DataBank source.

QUESTION NO: 64

In the European Union, publicly listed firms are obliged to change auditors at least every:

A. 5 years

B. 10 years

C. 20 years

ANSWER: B

Explanation:

10 years is correct because the European Union's mandatory audit-firm rotation rules establish a maximum initial engagement period of 10 years for the statutory auditor or audit firm of a public-interest entity. Publicly listed companies generally fall within the public-interest-entity category for this purpose. The requirement arises from Article 17 of Regulation (EU) No 537/2014, which was introduced to strengthen auditor independence and confidence in statutory audits. Limiting the duration of an uninterrupted audit relationship helps reduce familiarity threats that can develop when an audit firm serves the same issuer for a very long time. The rule concerns rotation of the audit firm or statutory auditor, rather than simply changing individual members of the audit engagement team. Member states may apply stricter national limits, and the regulation contains narrowly defined mechanisms that can affect the maximum duration in particular circumstances, such as certain tendering or joint-audit arrangements. Nevertheless, the standard maximum period tested in relation to the EU-wide requirement is 10 years. The legal text is available in Regulation (EU) No 537/2014, especially Article 17. The European

Commission also summarizes the reform's objectives and auditor-independence framework on its auditing and company reporting page.

QUESTION NO: 65

Corporate governance in the UK is notable for:

A. its requirement for joint auditors.

B. the existence of double voting rights for some shareholders.

C. the prominence of board behavior guidelines in its Corporate Governance Code.

ANSWER: C

Explanation:

The prominence of board behavior guidelines in its Corporate Governance Code is correct. UK corporate governance is strongly associated with a principles-based framework that sets expectations for how boards lead, direct, and oversee companies. The UK Corporate Governance Code addresses board leadership and company purpose, the division of responsibilities between the chair and executives, board composition and succession, audit and risk oversight, and remuneration. It is applied through a "comply or explain" approach for companies with a premium listing: a company either reports compliance with the Code's provisions or gives shareholders a clear, meaningful explanation of any departure. This framework makes the quality of board conduct, accountability, independence, challenge, and engagement with shareholders central features of UK practice rather than merely procedural requirements. The Code also establishes that the board should assess how it has applied the principles, enabling investors to evaluate governance practices in context. These features reflect the UK's influential stewardship- and disclosure-oriented model of governance, in which directors' behavior and effective board oversight are core to protecting and promoting long-term sustainable success. See the Financial Reporting Council's UK Corporate Governance Code and the UK Stewardship Code.

QUESTION NO: 66

In contrast to active investors, passive investors are most likely to:

A. seek a direct discussion with senior management and then the board

B. start their engagement process by writing a letter to all the companies impacted by a certain ESG issue

C. focus their engagement on companies identified as underperformers or ones that trigger other financial or ESG metrics

ANSWER: B

Explanation:

"Start their engagement process by writing a letter to all the companies impacted by a certain ESG issue" is correct because passive investors generally hold broad, index-linked portfolios and may own every—or nearly every—company in a benchmark. Their engagement must therefore be scalable, systematic, and capable of communicating expectations consistently across many issuers. A letter to the full set of affected companies is an efficient initial tool: it identifies the relevant sustainability concern, explains the investor's expectations, and establishes a basis for subsequent monitoring, dialogue, voting, or escalation where needed.

This approach fits the stewardship role of a long-term, diversified owner. Because a passive manager cannot readily avoid an issuer simply by selling it without departing from the benchmark, improving issuer practices and reducing portfolio-wide ESG risks can be especially important. Written communication also creates a clear record of the engagement objective and allows the investor to address a thematic issue across sectors or markets in a coordinated way. CFA Institute describes stewardship as including engagement and voting activities intended to influence investee-company practices, while the Principles for Responsible Investment outlines company dialogue and escalation as engagement tools. See CFA Institute's stewardship resources and the PRI engagement guidance.

QUESTION NO: 67

In the transition to a low-carbon economy, a coal-powered utility without a mitigation strategy will most likely pose the highest risk to its:

A. debtholders.

B. common shareholders.

C. preference shareholders.

ANSWER: B

Explanation:

common shareholders. is correct because common equity represents the residual claim on a company's assets and cash flows. A coal-powered utility that lacks a credible mitigation strategy faces substantial transition risk as climate policy, carbon pricing, clean-energy mandates, technological change, and changing electricity demand can reduce the economic value and usable life of its coal-generation assets. These developments may require costly emissions controls, accelerated plant retirements, asset impairments, capital-expenditure commitments, or replacement generation capacity. They can also weaken expected revenues and margins if the utility cannot fully recover those costs through customer rates or regulation.

After operating obligations, interest payments, and other senior claims have been met, common shareholders receive what remains. Consequently, reductions in enterprise value and future distributable cash flow are generally absorbed first and most directly by common equity holders. This reflects the central sustainable-investing concept that climate-transition risks can affect valuation through lower expected cash flows, higher required investment, and stranded-asset risk. CFA Institute discusses how climate-related risks and opportunities can be incorporated into investment analysis in its Climate Change Analysis and the TCFD. The Financial Stability Board's TCFD recommendations also describe transition risks arising from policy, legal, technology, market, and reputational changes.

QUESTION NO: 68

Which of the following is a for-profit provider offering multiple ESG-related products and services?

A. CDP

B. UNEP

C. FactSet

ANSWER: C

Explanation:

FactSet is the correct choice because it is a commercial, for-profit financial-data and analytics provider that supplies investors and investment professionals with a broad ESG offering. Its ESG capabilities extend beyond a single disclosure initiative or institutional program: they include company-level ESG data, regulatory and sustainability reporting content, screening and portfolio-analysis tools, climate-related datasets, and workflow integration within its investment-research platform. This breadth is important in sustainable investment practice because users often need to source, compare, analyze, and apply ESG information across security research, portfolio construction, risk oversight, client reporting, and stewardship processes. FactSet's commercial model is based on providing data, analytics, and technology products to market participants, and its ESG datasets and tools are part of that wider product ecosystem. FactSet describes its ESG solutions and related data coverage at FactSet ESG Solutions. Its status as a publicly traded company and provider of financial information services is also documented in its investor materials at FactSet Investor Relations. Accordingly, FactSet fits the description of a for-profit provider offering multiple ESG-related products and services.

QUESTION NO: 69

A regulatory framework designed to support ESG integration in corporate disclosures is:

A. The EU Sustainable Finance Disclosure Regulation (SFDR)

B. The EU General Data Protection Regulation (GDPR)

C. The US Foreign Corrupt Practices Act (FCPA)

ANSWER: A

Explanation:

The EU Sustainable Finance Disclosure Regulation (SFDR) is the correct answer because it is a central element of the EU sustainable-finance framework and establishes sustainability-related disclosure obligations for financial-market participants and financial advisers. It requires prescribed disclosures at both entity and financial-product levels, including how sustainability risks are integrated into investment decision-making or advisory processes and consideration of principal adverse impacts on sustainability factors. These requirements make sustainability information more transparent, comparable, and usable by investors, helping embed ESG considerations into financial-product reporting and governance. Although the question uses the phrase “corporate disclosures,” SFDR is specifically directed at financial-market participants and advisers rather than being a general corporate-reporting regime. The European Commission describes SFDR as imposing transparency requirements concerning the integration of sustainability risks and consideration of adverse sustainability impacts in processes and products. This disclosure architecture supports informed capital allocation and reduces the risk of unsubstantiated sustainability claims. For the regulation’s legal text and scope, see Regulation (EU) 2019/2088 on sustainability-related disclosures. The European Commission’s overview of the framework is available at Sustainability-related disclosure in the financial services sector.

QUESTION NO: 70

Which of the following ESG approaches is an investor in sovereign debt most likely to apply?

A. Active engagement

B. Exclusionary screening

C. Stewardship interaction

ANSWER: B

Explanation:

Exclusionary screening is the most likely approach because it is a practical way for a sovereign-debt investor to translate ESG objectives into portfolio eligibility and country-selection decisions. The investor can define minimum standards or exclusion criteria using sovereign-level indicators, such as respect for human rights, international sanctions, corruption and institutional quality, civil liberties, or environmental commitments. Countries that do not meet the stated requirements can then be removed from the investable universe or subject to portfolio restrictions. This approach fits the characteristics of sovereign investing: the issuer is a national government, and investors generally have fewer direct, issuer-specific channels through which to seek operational or governance changes than they do with listed companies. Screening also supports transparent, repeatable implementation across a broad universe of government issuers, including the documentation of ESG constraints in a fund mandate. The PRI’s sovereign-investment guidance discusses the use of ESG information and sovereign indicators in investment processes: PRI: Why and how investors use ESG information in sovereign bond investment. CFA Institute also describes screening as a foundational ESG-investment approach: CFA Institute ESG Investing research.

QUESTION NO: 71

In which of the following circumstances is Free, Prior, and Informed Consent (FPIC) most applicable?

A. Members agreeing to a social media platformâ€™s privacy policy

B. Company constructing a fish farm next to a native waterfront community

C. Governments passing international standards against forced labor practices

ANSWER: B

Explanation:

Company constructing a fish farm next to a native waterfront community is correct because FPIC is a rights-based process designed to protect Indigenous Peoples when a proposed project, policy, or activity may affect their lands, territories, resources, livelihoods, cultural heritage, or way of life. A fish farm located next to an Indigenous waterfront community may affect access to fisheries, water quality, ecosystems, traditional practices, and local economic activity. FPIC requires engagement before key decisions are made, provision of information in a form the affected community can understand, adequate time for its own decision-making processes, and an absence of coercion, intimidation, or manipulation. Consent is therefore a substantive outcome of a meaningful process, rather than simply a notice or consultation exercise. For sustainable investors and companies, applying FPIC is particularly relevant in evaluating social risks, Indigenous rights practices, project legitimacy, and the potential for disputes, delays, remediation costs, and reputational harm. The UN Declaration on the Rights of Indigenous Peoples recognizes FPIC in connection with projects affecting Indigenous lands or resources. The UN Food and Agriculture Organization also describes FPIC as a safeguard for Indigenous Peoples whose rights and interests may be affected by development initiatives. See the UN Declaration on the Rights of Indigenous Peoples and FAO guidance on FPIC.

QUESTION NO: 72

A company is accused of surveilling employees to prevent them from forming a union. The decision of an asset manager to divest from holding shares in the company is an example of:

A. universal exclusion

B. idiosyncratic exclusion

C. conduct-related exclusion

D. regulatory divestment

ANSWER: C

Explanation:

conduct-related exclusion is correct because the asset manager’s decision is based on the company’s alleged behavior rather than on its industry, product, geography, or a legal requirement to sell the shares. Conduct-related exclusions, also called norms-based exclusions in many investment frameworks, remove companies from an investable universe when their actions are inconsistent with widely accepted international norms and standards.

Surveilling employees to obstruct union formation raises a labor-rights concern, particularly regarding freedom of association and the effective recognition of collective-bargaining rights. These rights are reflected in Principle 3 of the UN Global Compact, which calls on businesses to uphold freedom of association and recognize the right to collective bargaining. An investor may assess the credibility, severity, persistence, and remediation of such conduct and decide that continuing to hold the company is incompatible with its responsible-investment policy. Divestment in response to that specific alleged misconduct is therefore a conduct-related exclusion. This approach connects portfolio eligibility to corporate conduct and adherence to recognized social norms, rather than applying a blanket screen to all companies in a sector.

See the UN Global Compact’s Principle 3 and the Principles for Responsible Investment guidance on human rights.

QUESTION NO: 73

When incorporating ESG factors into valuation inputs, which of the following would most likely require the lowest discount rate?

A. A company with strong ESG practices

B. A high-growth technology company operating in emerging markets

C. A company that is judged to have a negative environmental impact

ANSWER: A

Explanation:

A company with strong ESG practices would most likely require the lowest discount rate when ESG considerations are material to valuation. A discount rate reflects the return investors require for bearing the risk associated with an investment. Strong, decision-useful ESG performance can indicate better management of financially material risks and opportunities, including regulatory exposure, physical climate risk, workforce retention, supply-chain resilience, stakeholder relationships, and governance quality. Effective governance is particularly relevant because it can improve oversight, capital allocation, internal controls, and management accountability.

When these practices credibly reduce the probability or severity of adverse cash-flow outcomes, investors may view future cash flows as more resilient and less uncertain. That reduced risk can lower the relevant risk premium, reducing the cost of equity, cost of debt, or weighted average cost of capital used as the discount rate. The effect should be based on company-specific evidence and financially material ESG factors rather than a generic ESG label. CFA Institute describes ESG integration as the explicit and systematic inclusion of ESG factors in investment analysis and investment decisions; valuation effects may arise through cash flows, terminal value, and discount rates. See CFA Institute's ESG Issues in Investment Analysis and Valuation and its ESG Integration in Europe, the Middle East, and Africa.

QUESTION NO: 74

For engagement strategies to deliver meaningful results in a cost-effective and time-effective manner, investors must:

A. identify which company in their portfolio is most in need of engagement

B. raise all possible concerns with the company which has the most risk in their portfolios

C. frame the engagement topic into a broader discussion around strategy and avoid discussing long-term financial performance with a company ' s board

ANSWER: A

Explanation:

“identify which company in their portfolio is most in need of engagement” is correct because effective stewardship requires a deliberate prioritization process. Engagement is resource-intensive: investors need time, company-specific research, access to directors or management, clearly defined objectives, and monitoring of progress. Directing those resources toward issuers where engagement has the greatest potential material relevance and influence makes the approach both more meaningful and more efficient.

Prioritization commonly considers the severity and likelihood of financially material sustainability risks or opportunities, the size of the holding or exposure, the investor's ability to influence the issuer, the issuer's responsiveness, and the prospect that engagement can produce measurable change. Identifying the company most in need of engagement therefore allows the investor to establish focused objectives, use escalation only where appropriate, and assess outcomes against defined milestones. This is consistent with the CFA Institute's description of stewardship as the use of investor influence to protect and enhance long-term value, including engagement with investee companies. It also aligns with the PRI's practical guidance that investors develop a systematic process to prioritize engagement targets and objectives. See CFA Institute research on ESG integration and stewardship and the PRI Active Ownership 2.0 resources.

QUESTION NO: 75

Which of the following data are most likely the easiest to optimize in a portfolio?

A. Social

B. Governance

C. Environmental

ANSWER: C

Explanation:

Environmental data are most likely the easiest to optimize in a portfolio because many environmental indicators can be expressed as relatively standardized, quantitative metrics. For example, an investor can set and measure a portfolio objective for financed emissions, carbon intensity, energy use, water use, or exposure to fossil-fuel reserves. These measures can often be aggregated across holdings using portfolio weights, allowing an optimizer to set a target—such as reducing weighted-average carbon intensity—while also controlling for return, risk, sector exposure, turnover, and tracking error. Greenhouse-gas emissions are especially useful because reporting frameworks provide common measurement concepts and emissions can be classified into Scope 1, Scope 2, and Scope 3 categories. Although coverage, estimation methods, and comparability still require careful review, environmental metrics are generally more amenable to numerical constraints and objective functions than qualitative or event-driven information. This makes Environmental the most suitable choice when the question asks which type of ESG data is easiest to optimize at portfolio level. The CFA Institute's Sustainable Investing Certificate curriculum includes the use of ESG information in portfolio construction and investment analysis; see CFA Institute's Sustainable Investing Certificate. For the widely used emissions-accounting framework that supports carbon metrics, see the GHG Protocol Corporate Standard.

QUESTION NO: 76

An airline leads its industry in implementing all technologically and economically feasible low-carbon technologies. However, the airline still generates substantial carbon emissions. These remaining carbon emissions:

A. reflect manageable risks.

B. should not contribute to the airline's ESG score.

C. do not indicate a failure of the airline's management to address material ESG risks.

ANSWER: C

Explanation:

do not indicate a failure of the airline's management to address material ESG risks. Aviation is generally regarded as a hard-to-abate sector because its operations depend on energy-dense fuel, while commercially scalable alternatives and supporting infrastructure remain limited. A sound assessment of management should therefore distinguish between a company's absolute residual emissions and the quality of its response to the transition risk those emissions create. In this case, the airline has implemented all technologically and economically feasible low-carbon technologies and leads its industry, which is evidence of active management of the relevant climate risk rather than neglect.

For sustainable-investing analysis, material ESG risk is evaluated in a sector-specific and forward-looking way. Relevant considerations include the credibility of decarbonization strategy, capital allocation, operational efficiency, use of sustainable aviation fuel where available, governance, disclosure, and preparedness for policy and carbon-price changes. Residual emissions may remain substantial even under strong management because of technological and economic constraints inherent in aviation. CFA Institute guidance emphasizes incorporating ESG factors into investment analysis in a manner that is material to the issuer and its industry context. See CFA Institute's ESG investing research and the International Energy Agency's aviation overview.

QUESTION NO: 77

Assessing the alignment of local labor laws with International Labour Organization (ILO) principles is an example of social analysis at the:

A. sector level

B. country level.

C. company level

ANSWER: B

Explanation:

country level. is correct because local labor laws are created, implemented, and enforced within a national jurisdiction. Assessing their alignment with International Labour Organization principles therefore evaluates the country's legal and institutional framework for labor rights. This type of country-level social analysis considers whether domestic legislation reflects internationally recognized labor standards, including freedom of association, collective bargaining, elimination of forced or compulsory labor, abolition of child labor, and elimination of discrimination in employment and occupation. It can also inform an investor's understanding of jurisdiction-wide social risks, the likely strength of worker protections, and the consistency of the regulatory environment affecting businesses operating in that market. The ILO's Declaration on Fundamental Principles and Rights at Work establishes the core labor-rights framework that member states are expected to respect, promote, and realize. The ILO also maintains its normative framework through international labor standards and country-specific supervisory processes. These sources make comparison of national labor law and practice with ILO principles inherently an assessment at the country level. See the ILO Declaration on Fundamental Principles and Rights at Work and the ILO's overview of international labour standards.

QUESTION NO: 78

An analyst reads the following statements about wastewater treatment plants:

Statement I: Wastewater treatment plants are capital intensive.

Statement II: Wastewater treatment plants are difficult to maintain.

Which of the following is correct?

A. Statement I only

B. Statement II only

C. Both Statement I and Statement II

ANSWER: C

Explanation:

Both Statement I and Statement II is correct. Wastewater treatment facilities require substantial initial capital expenditure because they involve long-lived, specialized infrastructure: collection connections, pumping equipment, treatment basins, biological and/or chemical treatment systems, sludge-handling equipment, monitoring systems, and discharge-control infrastructure. Costs also arise from designing capacity for population needs, meeting permit requirements, and upgrading plants as standards or flows change. The US Environmental Protection Agency identifies wastewater infrastructure investment needs across treatment facilities, conveyance systems, and related assets, illustrating the scale and capital-intensive nature of the sector.

These facilities also require skilled, ongoing operation and maintenance. Operators must manage interconnected physical, biological, and chemical processes, monitor influent and effluent quality, maintain mechanical and electrical equipment, control treatment performance, handle residuals, and comply with discharge permits. Maintenance is therefore not merely routine building upkeep; it is essential to reliable treatment, environmental protection, and regulatory compliance. The EPA's overview of wastewater treatment describes the multiple treatment stages and operational processes involved. See the EPA Clean Watersheds Needs Survey and the EPA NPDES permit basics.

QUESTION NO: 79

Shocks around pay levels at newly privatized utilities led to the:

A. Dodd-Frank Act

B. Greenbury Report

C. Sarbanes-Oxley Act

ANSWER: B

Explanation:

The **Greenbury Report** is correct because it arose from the UK debate over directors' remuneration, particularly the public and investor concern generated by very large pay packages, share awards, and gains at recently privatized utility companies. Published in 1995 by the Committee on Directors' Remuneration and chaired by Sir Richard Greenbury, the report focused on restoring confidence in how listed companies set and disclose executive pay. Its central governance approach was to place responsibility for remuneration with independent non-executive directors through a remuneration committee, strengthen disclosure of directors' remuneration, and align incentives more closely with sustained company performance. These recommendations became an important part of the evolution of UK corporate-governance practice and informed subsequent principles incorporated into the UK Corporate Governance Code. The historical context and recommendations can be reviewed in the original Greenbury Committee report. The continuing UK governance expectation that boards establish formal and transparent procedures for executive remuneration is reflected in the UK Corporate Governance Code.