



# CFA UK LEVEL 4 CERTIFICATE IN ESG INVESTING

## Official Training Manual

### High level change summary

- Edition 2 of the CFA UK Level 4 Certificate in ESG Investing Official Training Manual is valid for testing between 1<sup>st</sup> October 2020 - 30 September 2021.
- Edition 3 of the CFA UK Level 4 Certificate in ESG Investing Official Training Manual is valid for testing from 1 October 2021 - 30 September 2022.
- The following table shows the key, high level changes to Edition 3 of the Official Training Manual and should be read in conjunction with the tracked changes Version 3 syllabus document.

Topic	
<b>1</b>	<b>Introduction to ESG</b>
	Key challenges to implementing ESG (previously part of Chapter 2) added.
	Coverage of ESG-related initiatives simplified.
	Expanded coverage and update on regulatory matters.
<b>2</b>	<b>The ESG Market</b>
	Material regarding the history of ESG is now examinable.
	Inclusion of an additional case study.
	Expanded coverage of EU Taxonomy and EU Sustainable Finance Disclosure Regulation (SFDR).

Topic	
	Coverage of Task Force on Climate-related Financial Disclosures.
<b>3</b>	<b>Environmental Factors</b>
	Coverage of additional target-related and analytical approaches, such as science-based targets, net zero commitments, Scope 3 emissions measurement, temperature alignment analysis and updates on climate models.
	Updates to reflect new climate science, tipping points, current emissions gap relative to the goal of the Paris Agreement and new insights into potential impacts at different levels of global warming.
	Expanded coverage of the impact of physical risks and losses from extreme weather events, deforestation risks, climate adaptation and transition finance.
	Discussion of the precautionary principle, and of new regulatory trends in sustainable finance (eg the EU Taxonomy).
<b>4</b>	<b>Social Factors</b>
	Content added on social impact of Covid-19.
	Expanded coverage of OECD Guidelines and introduction of concept of double materiality.
	Coverage of EU Taxonomy regulation rule 'do no significant harm'.
	Inclusion of additional case study.
<b>5</b>	<b>Governance Factors</b>
	Enhanced discussion of issues around discrepancies between narrative reporting and the financial statements.
	Introduced discussion of business resilience, particularly in the light of lessons learned from the Covid-19 pandemic.
	Added detailed discussions of governance structures in: Australia, France and Italy.
<b>6</b>	<b>Engagement &amp; Stewardship</b>
	General enhancements and including further clarifications on the expectations of stewardship codes and on different forms of engagement.
	An added collective engagement case study.
	Fuller discussion of engagement in the context of sovereign debt.

Topic	
<b>7</b>	<b>ESG Analysis, Valuation &amp; Integration</b>
	Update on ESG surveys and clarification of different types of firm (asset owners, asset managers, insurance entities and hybrid organisations).
	Further detail on analysing different forms of extra-financial or intangible capital such as reputation, customer relationships, supplier relationships, employee human capital.
	Clarification: Scorecards can be used in private companies analysis and other asset classes.
	Further detail on challenges with corporate ESG disclosure.
	Additional details on case studies and extra study added.
	New section on an overview of global ratings agencies, and a focus on global service providers and editing of more niche service providers.
	Further details on bias in ESG ratings.
	Further details on green bonds.
<b>8</b>	<b>ESG Integrated Portfolio Construction &amp; Management</b>
	New section on the integration of Paris-aligned climate strategies into portfolio management, discussing the methodologies for the Paris-Aligned Investment Initiative, Transition Pathway Initiative, Net Zero Asset Owners Alliance, Net Zero Asset Managers Alliance and the Net Zero Company Benchmark.
	New section within manager selection for assessing ESG capabilities of alternative managers.
	Additional details in the credit portfolio illustrating PIMCO's approach to assessing credit portfolios to a number of carbon/climate exposures.
	New illustration example of a portfolio sovereign scoring tool for sovereign credit.
	Additional details in the listed equities section illustrating how exposure to ESG can enhance the risk return profile for hedge funds.
	New section on the implications of EU regulatory changes – specifically EU Sustainable Finance Disclosure Regulation (SFDR) – on ESG portfolio integration. The section discusses the SFDR's new categorisation of funds (Articles 6, 8 and 9) including the defining features for each.
	New section on additional efforts to develop standards for ESG investing, including the CFA's new ESG Disclosure Standards.
	Additional example of an SDG impact analysis.

Topic	
<b>9</b>	<b>Investment Mandates, Portfolio Analytics &amp; Client Reporting</b>
	Enhancement and clarification of the structure of the chapter.
	Further material and discussion regarding request for proposal (RFP) design, particularly adding asset allocation as a starting point.
	Further material and discussion on mandate construction.