

CFA Institute ESG-Investing Certificate Exam | ESG-Investing Questions Answers



ActualTestsIT Certificate in ESG Investing (ESG-Investing) practice test material covers all the key topics and areas of knowledge necessary to master the CFA Institute Certification Exam. Experienced industry professionals design the ESG-Investing exam questions and are regularly updated to reflect the latest changes in the Certificate in ESG Investing (ESG-Investing) exam. In addition, ActualTestsIT offers three different formats of practice material which are discussed below.

CFA Institute ESG-Investing Exam Syllabus Topics:

Topic	Details
Topic 1	• Overview of ESG Investing and the ESG Market: This section tests ESG Investment Managers and delves into responsible investment strategies, examining how environmental, social, and governance (ESG) elements shape the investment ecosystem.
Topic 2	• Social Factors: This section focuses on analyzing social factors, including their systemic effects and material impacts. This section also provides methodologies for assessing social risks and opportunities at country, sector, and organizational levels.
Topic 3	• Investment Mandates and Portfolio Analytics: This domain explains to ESG Analysts the importance of constructing mandates to support effective ESG investment results. This section highlights key aspects, such as transparency and accountability, which are essential for asset owners and intermediaries to align portfolios with ESG priorities.
Topic 4	• ESG Integrated Portfolio: This section discusses the application of ESG analysis across multiple asset classes, exploring strategies for incorporating ESG criteria into portfolio management.

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2025 CFA Institute ESG-Investing: Certificate in ESG Investing Authoritative Certificate Exam

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CFA Institute Certificate in ESG Investing Sample Questions (Q92-Q97):

NEW QUESTION # 92

An asset manager considering environmental risks would most likely use:

- A. both qualitative and quantitative analyses
- B. quantitative analysis only
- C. qualitative analysis only

Answer: A

Explanation:

An asset manager considering environmental risks would most likely use both qualitative and quantitative analyses. Combining these approaches provides a comprehensive understanding of the environmental risks associated with investments.

* Qualitative Analysis: This involves evaluating non-numerical information, such as company policies, management practices, and environmental impact reports. It helps assess the company's approach to managing environmental risks and its commitment to sustainability.

* Quantitative Analysis: This involves analyzing numerical data, such as carbon emissions, energy consumption, water usage, and waste generation. It provides measurable metrics that can be compared over time and against industry benchmarks.

* Holistic Assessment: Using both qualitative and quantitative analyses allows asset managers to gain a complete picture of a company's environmental performance. It helps identify potential risks and opportunities, leading to more informed investment decisions.

References:

* MSCI ESG Ratings Methodology (2022) - Highlights the importance of integrating both qualitative and quantitative analyses in evaluating environmental risks.

* ESG-Ratings-Methodology-Exec-Summary (2022) - Discusses the benefits of a holistic approach to environmental risk assessment using diverse analytical methods.

NEW QUESTION # 93

A social media company faces criticism from a consumer action group for selling user data to advertising clients. A potential lawsuit will have the greatest direct effect on the company's:

- A. creditors turnover ratio.
- B. liabilities-to-assets ratio.
- C. return on equity ratio.

Answer: B

Explanation:

Direct Effect of a Potential Lawsuit:

When a company faces potential legal action, the primary financial impact is often reflected in its liabilities, as the company may need to account for potential legal costs, settlements, or fines.

1. Liabilities-to-Assets Ratio: A potential lawsuit will have the greatest direct effect on the company's liabilities-to-assets ratio. This ratio measures the proportion of a company's assets that are financed by liabilities. When a company anticipates or incurs legal liabilities, its total liabilities increase, which directly impacts this ratio.

2. Return on Equity Ratio (Option A): The return on equity (ROE) ratio measures a company's profitability relative to shareholders' equity. While a lawsuit can indirectly affect ROE through legal expenses and potential losses, the most immediate impact is on liabilities rather than profitability.

3. Creditors Turnover Ratio (Option B): The creditors turnover ratio measures how quickly a company pays off its creditors. This ratio is less directly impacted by a lawsuit compared to the liabilities-to-assets ratio, which reflects the increase in liabilities due to potential legal obligations.

References from CFA ESG Investing:

* Financial Impact of Legal Issues: The CFA Institute discusses how legal risks and potential liabilities can affect a company's financial statements, particularly by increasing liabilities, which in turn affects ratios that measure financial leverage and stability.

NEW QUESTION # 94

According to the Taskforce on Nature-related Financial Disclosures (TNFD), the four realms of nature include

- A. land
- B. biodiversity
- C. pollution.

Answer: A

Explanation:

According to the Taskforce on Nature-related Financial Disclosures (TNFD), the four realms of nature include land, which is a critical aspect of the natural environment that businesses must consider in their sustainability and risk management strategies.

Step-by-Step Explanation:

TNFD Framework:

The TNFD was established to develop a framework for organizations to report and act on evolving nature-related risks. This framework is intended to help financial institutions and companies manage risks related to biodiversity and natural capital.

The CFA Institute highlights that the TNFD framework is essential for integrating nature-related financial risks into corporate and investment decision-making processes.

Four Realms of Nature:

The TNFD identifies four realms of nature that are critical for understanding and managing nature-related risks:

Land

Oceans

Freshwater

Atmosphere

These realms encompass the major natural systems that support life on Earth and are crucial for maintaining biodiversity and ecosystem services.

Significance of Land:

Land is a fundamental realm as it encompasses terrestrial ecosystems, forests, and agricultural areas. It is crucial for biodiversity, carbon sequestration, and providing resources for human activities.

The CFA Institute notes that sustainable land management practices are vital for mitigating risks related to deforestation, habitat loss, and soil degradation, which can have significant financial and environmental impacts.

Integration into ESG Strategies:

Companies and investors are increasingly recognizing the importance of integrating land-related risks into their ESG strategies. This includes assessing the impacts of their operations on land use, biodiversity, and ecosystem health.

The TNFD framework provides guidance on how to assess and report on land-related risks, helping organizations to enhance their sustainability practices and improve transparency.

References:

CFA Institute, "Environmental, Social, and Governance Issues in Investing: A Guide for Investment Professionals." Taskforce on Nature-related Financial Disclosures (TNFD) documents, which outline the four realms of nature and their significance for ESG integration.

NEW QUESTION # 95

Which of the following is best referred to as secondary ESG data?

- **A. Survey results on employee satisfaction provided by Glassdoor.**
- B. A transcript of an interview with a company's chief financial officer (CFO).
- C. Bloomberg ESG Disclosure Score.

Answer: A

Explanation:

Secondary ESG data refers to information collected from sources other than official company disclosures, often from external third-party sources.

Primary ESG data: Directly provided by companies in sustainability reports, regulatory filings, or financial statements.

Secondary ESG data: Derived from third-party sources such as news articles, employee reviews, external surveys, or social media analysis.

Why is B correct?

Glassdoor employee satisfaction surveys provide insights into workplace culture, labor rights, and social issues—all key ESG aspects. This is not direct company disclosure but rather third-party, externally collected data.

Why not A or C?

A (Bloomberg ESG Score) is primary data because Bloomberg compiles ESG disclosures directly from companies.

C (Interview transcript with CFO) is primary data because it comes directly from company leadership.

References:

PRI: Guide to ESG Data and Ratings Providers

Bloomberg ESG Data Whitepaper

NEW QUESTION # 96

The size of the discount rate adjustment to account for ESG risks most likely depends on:

- A. The effectiveness of the company's ESG risk management.
- B. Company-specific ESG risks.
- C. The magnitude of the company's cash flows.

Answer: B

Explanation:

The discount rate adjustment for ESG risks (Option A) depends on:

The severity of company-specific ESG risks, such as exposure to climate risk, governance failures, or social controversies.

Higher ESG risks # Higher discount rate # Lower valuation.

Option B (Cash flow magnitude) does not determine risk-adjusted discount rates.

Option C (Risk management effectiveness) matters but is secondary to the company's inherent ESG risk exposure.

References:

PRI ESG Discount Rate Adjustments Guide

S&P Global Sustainable Valuation Framework

CFA Institute: ESG and Cost of Capital Research

NEW QUESTION # 97

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