FUNDAMENTALS OF SUSTAINABILITY ACCOUNTING (FSA) CREDENTIAL™

LEVEL I SAMPLE QUESTIONS

The following sample questions have been developed to mimic the style and rigor of the questions on the FSA Level I exam. As with the Level I exam, the correct answers are derived from the information contained in the Level I Study Guide. *Note: the below sample questions are for the FSA Level I pilot exam. More details about the pilot exam can be found on the FSA website.*

1 What is the primary challenge that the disclosure of company policies (such as ESG policies or whistleblower policies) can pose to investment analysis?

- ☐ A. The presence of a company policy is represented through binary data, which does not provide useful insight into actual company performance
- ☐ B. Company policies always increase the labor burden of analysis, where large narrative documents must be manually processed
- ☐ C. Company policies may be written in response to poor performance and often provide fraudulent data, reducing the reliability of the information
- ☐ D. It is not always clear who at the company is accountable for implementing the policy, inhibiting investor-investee engagement

2 How do trends in index investing influence corporate-investor engagement on sustainability?

- ☐ A. The decline of index investing can encourage investment stewardship through proxy voting
- ☐ B. The growth of index investing can encourage use of the "Wall Street rule" and decrease dialogue-based engagement
- ☐ C. The decline of index investing can encourage shareholders to file resolutions and increase withdrawal rates
- ☐ D. The growth of index investing can encourage investment stewardship based on how buy-sell decisions are made

3 Corporate disclosures of sustainability information serve which two of the following purposes in capital markets? (Choose two)

- ☐ A. Aid in valuation for financial analysts
- ☐ B. Demand additional regulation for corporations
- ☐ C. Allow investors to assess risks and opportunities related to their investments
- ☐ D. Prevent non-governmental organizations from "naming and shaming" poor ESG performers

1: A; **2:** D; **3:** A & C

4 **The chart below presents examples of business initiatives designed to reflect the different stages of sustainability-based value creation, as identified by multiple thought leaders in the field. Select the arrangement of initiatives that progress from early-stage to late-stage:**

1. Incorporate inventory management and procurement processes to supplement product delivery service
2. Adapting product delivery service to enhance delivery options
3. Upgrading product ordering processes to reduce costs, time, and/or errors
4. Refining new and old business lines to establish brand leadership

- ☐ A. 1, 2, 3, 4
- ☐ B. 3, 1, 2, 4
- ☐ C. 2, 3, 1, 4
- ☐ D. 3, 2, 1, 4

5 **Which of the following is suitable to be included as an "activity metric" in SASB's standards?**

- ☐ A. A description of the company's strategy to protect customer data
- ☐ B. Number of media publications
- ☐ C. History of product recalls
- ☐ D. CAPEX

6 **Why is SASB's objective of cost-effectiveness for reporting companies ultimately in the best interest of providers of capital?**

- ☐ A. If companies limit the amount of information they report, they are more likely to report information that is material, reducing the level of immaterial data in the market
- ☐ B. If companies spend more than the value disclosure generates, there is potential for sustainability disclosure as a business function to negatively impact enterprise value
- ☐ C. If companies increase spending on reporting processes, they will be better equipped to gather and disclose new data, increasing the availability of sustainability data available
- ☐ D. If companies focus on internal reporting to inform performance management decisions, they will naturally produce decision-useful information that meets the needs of external users

4: D; **5**: B; **6**: B

7 **Which of the following provides an example of line-item sustainability disclosure guidance issued by a regulator?**

1. The US Securities and Exchange Commission (US SEC) 2010 Guidance lists four climate change issues that companies should consider for disclosure under existing applications of materiality to SEC filings.
2. The European Union Taxonomy for Sustainable Economic Activities (The EU Taxonomy) expects companies to report capital and operating expenditures associated with activities classified as environmentally sustainable.
3. The Australian Securities and Investments Commission (ASIC) 2019 Regulatory Guide states that that companies should present information about an entity's operations and financial position in a concise manner.
4. The Canadian Securities Administration (CSA) 2010 Environmental Reporting Guidance requires the disclosure of matters related to climate in order to comply with previously-established Continuous Disclosure Obligations.

☐ A. 1
☐ B. 2
☐ C. 3
☐ D. 4

8 **Which two features explain how SASB's standards-development process is designed to improve the decision-usefulness of sustainability information for investors? (Choose two)**

☐ A. A topic is only included in a standard if it includes evidence of financial impacts
☐ B. Investors' feedback during the standards development process is prioritized over other stakeholders
☐ C. The accounting metrics are quantitative to make it easier to integrate into conventional financial analysis tools
☐ D. The technical protocols are intended to improve the reliability of the information by forming the basis for suitable criteria

9 **An analyst wants to understand the connection between a company's sustainability data and one of four financial drivers (revenue, cost, assets and liabilities, and cost of capital) that are relevant to a discounted cash flow (DCF) analysis. Choose the pairing that correctly matches a data type with its relevance to a DCF analysis.**

☐ A. Data about factors that drive brand value : impacts on valuation methods for assets and liabilities
☐ B. Data about regulatory compliance : operational performance and cost structure
☐ C. Data about product features required by law : cost structure for profitability ratios (e.g. ROI)
☐ D. Data about the number of safety incidents : revenue growth in the context of price-based ratios (e.g. PE or PEG ratios)

7: B; **8**: A&D; **9**: B

10 Completeness is an important concept in disclosures of material information. For a company in an industry where workplace safety is likely to be material, if a company with 0 fatalities but 1,000 near-misses only discloses the number of fatal accidents, then investors are missing the complete picture. In the Automobile industry, information about the safety of a company's car models is likely to be material. Which three metrics, when taken together, are most likely to represent a complete disclosure? (Choose three)

- [ ] A. Percent of customers injured by other motorists in the previous year
- [ ] B. Number of safety-related defect complaints
- [ ] C. Number of vehicles recalled
- [ ] D. Number of suppliers satisfying third-party factory safety standards
- [ ] E. Percentage of retired union employees diagnosed with chronic illnesses originating from the workplace
- [ ] F. Percentage of vehicles with 5-star safety rating

11 On the spectrum of "values-" to "value"-focused investing, which investment strategy that uses sustainability information is farthest on the "value" end?

- [ ] A. Impact Investing
- [ ] B. Negative Screening
- [ ] C. ESG Integration
- [ ] D. Positive Screening

12 Which two statements, if true, provide evidence that the potential disclosure topic of Labor Practices fails to meet the criteria for inclusion in the Oil & Gas – Services Standard? (Choose two)

- [ ] A. "Labor Practices is a frequent topic in media coverage of the industry and shareholder resolutions in the industry but it is not important to our customers or our board of directors."
- [ ] B. "The industry is not unionized and strikes are a rare occurrence within the industry. Workers are generally extremely well paid and labor practices are healthy for the most part."
- [ ] C. "There are instances where labor practices is material in a specific set of circumstances—such as in Gabon in 2013—but it is not material across the industry."
- [ ] D. "Surveyed customers and suppliers indicated that cost containment strategies warranted disclosure except where it concerned what they viewed as a non-issue—labor practices—even though labor costs account for the 3rd greatest share of costs."

10: B;C&F **11:** C; **12:** B & C