

Data for Public Good

Steering the Role of ESG Ratings and
Data Products Providers

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Foreword



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At CDP we have long been convinced of the importance of making corporate environmental disclosure mainstream – and mandatory – to drive progress on the global environmental agenda: it is crucial if we are to limit global warming to 1.5°C, halt and reverse biodiversity loss by 2030 and to achieve the Sustainable Development Goals. This is now generally accepted by scientists, policymakers, regulators, corporations, and financial institutions alike. However, for disclosure to help achieve these ends, it is crucial to ensure the data reported is high quality.

Recent developments in the standard-setting ecosystem, such as with the creation of the International Sustainability Standards Board (ISSB) and development of the European Sustainability Reporting Standards (ESRS), are contributing to this objective. So, as the availability and quality of ESG data grows, an important question to ask is: “How can we make sure that the information disclosed is used to make decisions that advance the net-zero, nature-positive transition?”

As a compass to guide capital allocation, ESG ratings and data products have the potential to support the allocation of capital towards the fulfilment of the global environmental agenda. The role of these tools has increased significantly in financial markets, with many investors now integrating ESG ratings and data products into their decision-making processes. By 2020, SustainServ identified over 40 ESG ratings, 150 ESG rankings and 450 ESG indices. A recent report from ERM found that in 2022, 94% of investors used ESG ratings and data products at least once a month.

94%

of investors used ESG ratings and data products at least once a month in 2022, according to a recent report from ERM.



How can we make sure that the information disclosed is used to make decisions that advance the net-zero, nature-positive transition?



Despite the rapid increase in the availability and use of these products, studies around them remain limited. So, in this landmark report, we'll unpack not only the surge in ESG ratings and data products, but importantly, the scrutiny these tools are now facing. As the role of these tools grows, scrutiny from regulators is increasing to ensure that they are not used for greenwashing but rather to support the allocation of capital to sustainable activities.

Policymakers are studying this emerging policy area to understand the market, as well as the need for regulatory intervention. While findings from public consultations and other exercises have led policymakers to identify similar shortcomings associated with ESG ratings and data products, jurisdictions are taking different approaches to address them.

The findings and recommendations set out in this report suggest a path forward for policymakers in the face of a series of challenges, supporting them to develop a consistent approach to regulation, agreeing definitions and focusing on robust governance and transparent methodologies. Regulators must ensure that regulation does not lead to severe confusion among users and providers alike on the purpose and objectives of different ESG ratings, benchmarks, and data products. Following these recommendations can help ensure data is used for public good.

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Introduction



Introduction


By aligning their portfolios with global environmental goals, investors can contribute to the fulfilment of Article 2.1(c) of the Paris Agreement.



1.1. Background

In its recent Sixth Assessment Report (AR6), the Intergovernmental Panel on Climate Change (IPCC) warned that “there is a rapidly closing window of opportunity to secure a livable and sustainable future for all¹.” The Panel’s analysis indicates that if no immediate greenhouse gas (GHG) emission reductions occur, the current policies implemented across the globe will most likely lead to a 3.2°C warming – far from the 1.5°C ambition established by the Paris Agreement.

To remain within 1.5°C, we must reach net-zero by 2050 – an effort that requires integrated action from governments, civil society, and the private sector. While governments determine their national contributions and drive policy ambition, financial institutions can enable the net-zero transition by allocating capital towards sustainable activities. By aligning their portfolios with global environmental goals, investors can contribute to the fulfilment of Article 2.1(c) of the Paris Agreement: “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development².”

ESG (environmental, social, and governance), climate-related data and its subsequent products (hereby “ESG ratings and data products”) are important tools that may support asset managers, asset owners, banks, and insurers (hereby “investors”) in this objective.

The term “ESG ratings and data products” in this report

A wider discussion involving policymakers, providers, civil society organizations, academics, and investors aims to define ESG ratings and data products. In this report, the term “ESG ratings and data products” will broadly encompass evaluation tools that may derive primarily from ESG data, whether focused on one or more pillars of E, S, and G. It includes, therefore, net-zero portfolio alignment metrics, biodiversity risk assessments, ESG ratings, scores, and other ESG data-related products.

It does not include credit ratings for the reasons mentioned in the box “ESG ratings vs. credit ratings.”

¹ IPCC, “Synthesis Report of the IPCC Sixth Assessment Report – Summary for Policy Makers,” Intergovernmental Panel on Climate Change (2023), p. 5. https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_SPM.pdf

² UNFCCC, Adoption of the Paris Agreement. United Nations (2015), https://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf



PwC estimates that global ESG-related assets under management will increase by

84%

by 2026 reaching

US\$33.9 tr

By consolidating and evaluating information, ESG ratings and data products providers (hereby “providers”) aim to provide market participants with the means to assess and compare investee companies’ ESG performance. These tools can be focused solely on environmental, social, or governance performance or take a more integrated look at a company’s overall ESG performance. In turn, corporations use ratings to gain third-party feedback on the quality and progress of their sustainability initiatives³.

As ESG ratings and data products have the potential to act as a compass to support decision-making and capital allocation, their influence has increased significantly in capital markets. In the United Kingdom alone, almost half of the £10 trillion worth of assets under management have integrated ESG into the investment process⁴. PwC estimates that global ESG-related assets under management will increase by 84%, reaching US\$33.9 trillion in 2026⁵. A report by ERM already observes the behavioral change in investors’ practices. According to their recent analysis, 94% of investors are using ESG ratings and data products at least once a month, while 47% use multiple times per week⁶.

ESG ratings and data products have proliferated in prompt response to investors’ increased demand for ESG data and its subsequent assessments. However, significant shortcomings in their objectives and methodologies for data gathering, rating, and benchmarking have been identified. This exponential growth coupled with concerns about greenwashing and the accuracy of their assessment have led some policymakers and regulators to take a closer look at the functioning of the market.



ESG ratings and data products have proliferated in prompt response to investors’ increased demand for ESG data and its subsequent assessments.



- 3 David F. Larcker, Lukasz Pomorski, Brian Tayan, and Edward M. Watts, “ESG Ratings: A Compass Without Direction,” Stanford Closer Look Series. Governance Research Initiative (2022): 1-16. https://www.gsb.stanford.edu/sites/default/files/publication/pdfs/cgri-closer-look-97-esg-ratings_0.pdf.
- 4 The Investment Association, “Investment Management%20Survey%202021-22%20full%20report.pdf” (2022): 1-116. <https://www.theia.org/sites/default/files/2022-09/Investment%20Management%20Survey%202021-22%20full%20report.pdf>
- 5 PwC, “Asset and wealth management revolution 2022: Exponential expectations for ESG,” (2022): 1-28. <https://www.pwc.com/gx/en/financial-services/assets/pdf/pwc-awm-revolution-2022.pdf>
- 6 The Sustainability Institute by ERM, “Rate the Raters 2023 – ESG Ratings at a Crossroads,” (2023): 1-56. <https://www.sustainability.com/globalassets/sustainability.com/thinking/pdfs/2023/rate-the-raters-report-april-2023.pdf>

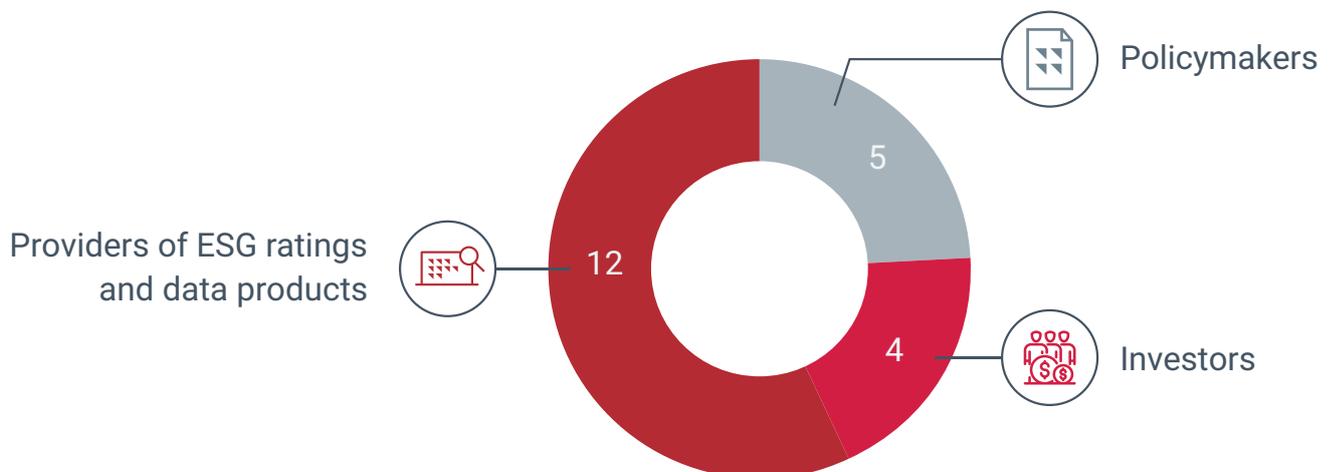
1.2. Purpose

Under this backdrop, this report aims to contribute to better informed debates on the status and suggested improvements in the space of ESG ratings and data products. It reflects on the role of providers, users, and regulators of ESG ratings and data products in supporting each other in aligning finance flows with global environmental agenda, as agreed in Article 2.1(c) of the Paris Agreement and in goal D, of the Kunming-Montreal Global Biodiversity Framework.

The remainder of this report is divided as follows. Chapter 2 discusses current shortcomings associated with ESG data and subsequently with ESG ratings and data products. Chapter 3 reviews the global regulatory status of the provision ESG ratings and data products and identifies policy limitations and opportunities. Chapter 4 provides a set of recommendations for policymakers and financial market regulators focusing on ESG ratings and data products.

Findings of this research were complemented by 21 interviews conducted by CDP; of these, five were policymakers, four were investors (users), and twelve were providers of ESG ratings and data products. Reflections from a roundtable discussion⁷, co-hosted by CDP and the Future of Sustainable Data Alliance (FoSDA), also contributed to refining the findings and recommendations of this report.

21 interviews by CDP, of these there were



⁷ The Roundtable "Steering the role of ESG ratings and data products", co-hosted by CDP and the Future of Sustainable Data Alliance (FoSDA) gathered representatives from seven regulatory bodies, eleven ESG ratings and data products providers, three institutional investors, and other five associations from industry and investment communities. <https://www.cdp.net/en/articles/governments/esg-ratings-and-data-products-the-challenges-and-opportunities-for-policymakers>

State of play

Home Equity	\$ Volume	Total
\$545,720.00	\$139,800.00	7
\$300,000.00	\$0.00	1
\$938,590.00	\$75,000.00	6
\$907,571.00	\$0.00	7
	\$56,100.00	4
		25

MW Index to October - Percentage



2



State of play

The Reporting Exchange platform of the World Business Council for Sustainable Development (WBCSD) estimates that there are

40+ ESG ratings

150+ ESG rankings

450+ ESG indices

With the growth and mainstreaming of ESG investment practices, providers of ESG ratings and data products⁸ have played an instrumental role in the sustainable financial market, particularly in measuring and benchmarking companies' performance against social and global climate targets. However, as outlined by the International Organization of Securities Commissions (IOSCO), their significance and usefulness will only continue as capital markets intensify efforts to support the shift towards a net-zero economy⁹.

Research conveyed by UBS has indicated that global revenues generated by such services could increase more than twofold by 2025¹⁰. The Reporting Exchange platform of the World Business Council for Sustainable Development (WBCSD) estimates that there are over 40 ESG ratings, 150 ESG rankings and 450 ESG indices, not including the research and in-house data products developed by investment banks, government, and research institutions¹¹. The number of ESG ratings and data products, however, is likely to continue growing to follow the increase in demand from investors for climate-related ESG data, as well as for products associated with net-zero alignment, ESG ratings, and data products.

⁸ In this research, the term ESG ratings and data products include climate-related assessments, such as net-zero scores and assessments on physical and transition risks.

⁹ IOSCO, "Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report," (2021): 1-53. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>

¹⁰ UBS, "Future Reimagined: Will ESG Data and Services Demand Accelerate Post-COVID & Who Will Win?" June 18, 2020, <https://www.ubs.com/global/en/investment-bank/in-focus/covid-19/2020/esg-data-and-services.html>.

¹¹ Cited in Manuela Huck-Wettstein, "ESG Ratings and Rankings: why they matter and how to get started," SustainServ, December 7, 2020, <https://sustainerv.com/en/insights/esg-ratings-and-rankings-why-they-matter-and-how-to-get-started/>.

Credit ratings vs ESG ratings

According to the UN Principles for Responsible Investment (PRI), investors are still confused about the differences between ESG ratings and credit ratings¹². While both types of ratings contain a subjective opinion provided by a specialized institution (eg a rating provider), their methodologies and purposes differ significantly.

Credit ratings

Credit ratings provide an assessment of the creditworthiness of an issuer (eg a company) or of one of its debt instruments¹³. The ratings are calculated by Credit Rating Agencies (CRAs), which are regulated entities under the supervision of regulatory authorities in the markets they operate. CRAs have transparent, publicly disclosed, and often similar methodologies to issue ratings. ESG data may be included in the calculation of a credit rating, if certain ESG factors are considered material. However, as credit ratings are financial instruments, most input data is financial.

ESG ratings

Different from credit ratings, ESG ratings lack a clear and single definition agreed by providers, users, and regulators. However, in general, ESG ratings provide an assessment of a company's environmental, social, and/or governance performance and its exposure to ESG-related risks. ESG ratings are considered non-financial instruments and, so far, remain unregulated. They are sometimes confused with credit ratings because certain CRAs have also developed products or subsidiaries issuing ESG ratings. However, other financial and non-financial institutions may also provide this type of assessment.

Also different from credit ratings, the objectives and methodologies of ESG ratings may vary just like their level of transparency. Further, because ESG ratings focus solely on ESG factors, input data is primarily environmental, social, and or governance data.

Aiming to clarify the differences between ESG and credit ratings for investors, PRI has developed a thorough analysis of these assessments, as well as of their providers¹⁴.

The provision, and to some extent use, of ESG ratings and data products is facing intense scrutiny today. Work by the SustainAbility Institute finds that neither the companies being rated nor those using the ratings assume ratings capture the entirety of corporate sustainability performance¹⁵. So, for these tools to act as a compass, truly support financial flows towards the net-zero transition, and pave the way towards a greener financial market, several shortcomings must be addressed.

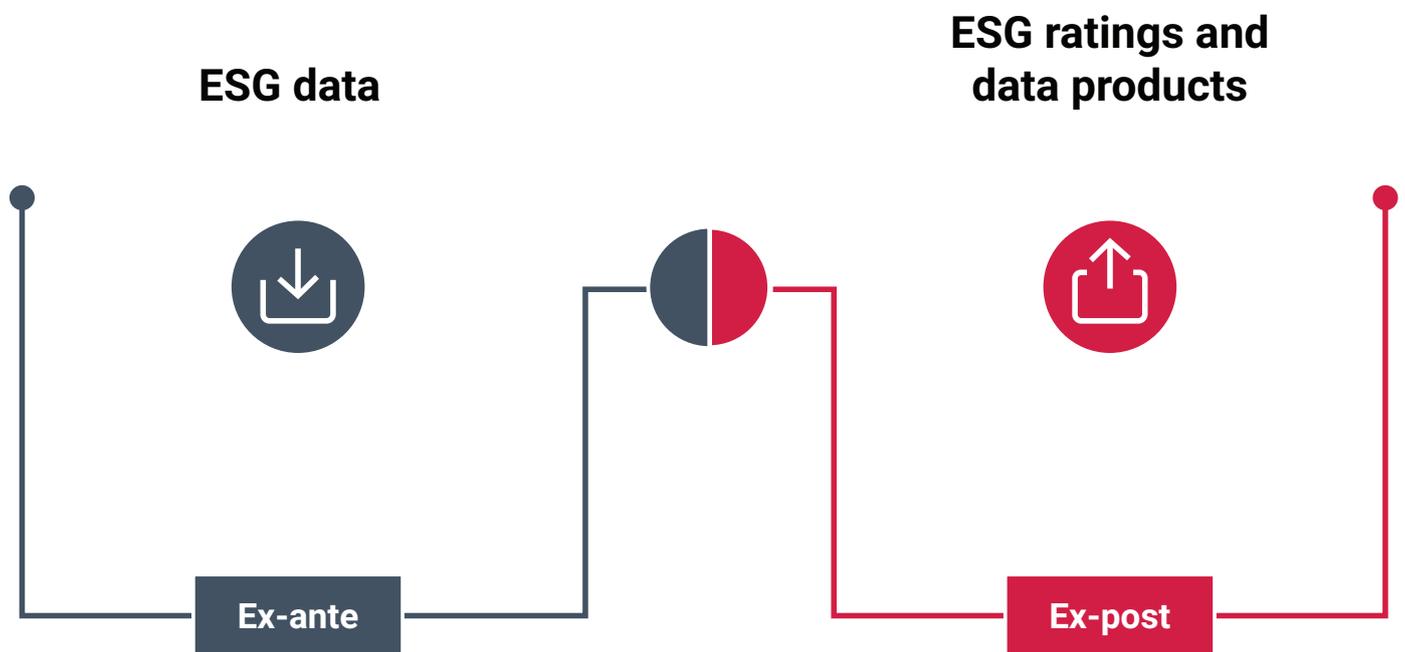
¹² Principles for Responsible Investment, "Shifting Perceptions: ESG, Credit Risk, and Ratings," (2023), p. 5. <https://www.unpri.org/download?ac=18381>.

¹³ Ibid.

¹⁴ <https://www.unpri.org/credit-risk-and-ratings/esg-in-credit-ratings-and-esg-ratings/11071.article>

¹⁵ Aiste Brackley, Emily K. Brock, and Justin Nelson, "Rating the Raters Yet Again: Increasing ESG Scrutiny Makes Current Rate the Raters Study Even More Crucial," The SustainAbility Institute by ERM, December 21, 2022, <https://www.sustainability.com/thinking/rating-the-raters-yet-again-increasing-esg-scrutiny-makes-current-rate-the-raters-study-even-more-crucial/>.

CDP categorizes these shortcomings into “ex-ante” and “ex-post” challenges. The former refers to challenges associated with ESG data. They are considered ex-ante because even though they exist despite ESG ratings and data products, their existence directly impacts the construction of these tools. Ex-post challenges, on the other hand, refer to those directly inherent in the construction and issuance of ESG ratings and data products, such as the (non) transparency of methodologies and management of conflicts of interests.



The following subsections will discuss these shortcomings by providing a summary of existing research and an overview of current related industry and non-profit initiatives. In the next chapter, challenges associated with the state of the regulatory arena will be addressed.

2.1. Ex-ante challenges – an imperfect data environment

The lack of mandate for sustainability disclosure, which for many years was the norm worldwide, contributed to the proliferation of diverging reporting standards, and consequently, to the rise of unharmonized ESG data. With different approaches to materiality (eg single vs. double), varying definitions and metrics or datapoints to measure sustainability issues, ESG data has become inconsistent, non-interoperable, and in many cases, with a poor coverage of sectors, industries, and geographies.

This fragmented ESG disclosure ecosystem has, to some extent, impacted the availability, consistency, comparability, and quality of climate related and ESG data. As data underpins the construction of ESG ratings, net-zero metrics, and biodiversity risks assessments, and other data products, such challenges are directly associated with the shortcomings of these evaluation tools.

2.1.1. Data availability

The poor availability of ESG and climate-related data is a consequence of the lack of mandatory disclosure and a fragmented ESG disclosure ecosystem. Issues associated with data availability often include granularity, coverage, accessibility, and data gaps.

Granularity

On granularity, the Network for Greening the Financial System (NGFS) identified that ESG and net-zero datasets often fail to provide individual-level information (ie in a country, sector, or firm-level basis) to assess transition and physical risks¹⁶. Likewise, the Institutional Investors Group on Climate Change (IIGCC) finds that less than 50% of data providers distribute data beyond GHG emissions as part of their net-zero alignment data products¹⁷.

These findings have been confirmed by CDP interviews with asset managers, who have expressed their appetite for more granular – and even raw – data. It has also been identified by the UN PRI in its series of workshops with CRAs and investors, who mentioned their preference to assess issuers by using raw data¹⁸.

¹⁶ Network for Greening the Financial System, "Progress report on bridging data gaps," (2021): 1-51, https://www.ngfs.net/sites/default/files/medias/documents/progress_report_on_bridging_data_gaps.pdf.

¹⁷ Institutional Investors Group on Climate Change (IIGCC). "Improving net zero data provision: Six asks of data vendors," (2023): 1-29, <https://www.iigcc.org/download/six-asks-of-data-vendors/?wpdmdl=7662&refresh=6454c3175e4731683276567>.

¹⁸ Principles for Responsible Investment, "Shifting Perceptions: ESG, Credit Risk, and Ratings," (2023), p. 5. <https://www.unpri.org/download?ac=18381>.



28%

of climate-related data has accessibility issues according to the NGFS.

According to ERM, investors have indicated an average annual spend on ESG data and products between

US\$175,000

US\$360,000



Coverage

Investors often highlight the lack of climate-related information for certain geographic areas, sectors, and enterprise population, as non-listed companies^{19,20}. This view corroborates the findings from CDP's interviews, which indicated that data coverage is usually limited, if not nonexistent, for companies in developing countries, as well as for small and medium enterprises (SMEs).

CDP's interviewees also pointed out issues associated with the timing of the data. Users and providers of ESG ratings and data products have indicated this to be an underlying issue associated with ESG evaluations, as the available data may not always be the most up to date information.

Accessibility

According to the NGFS, more than 28% of climate-related data has accessibility issues, often due to the costs associated with accessing the data collected and processed by private providers²¹. Asset managers and investors associations interviewed by CDP have also expressed their concerns over skyrocketing prices of ESG data and subsequent products. In fact, according to ERM, investors have indicated an average annual spend between US\$175,000 and US\$360,000²².

Seeking to address this issue, the Future of Sustainable Data Alliance (FoSDA), in their report ESG Data Gaps and Holes, has argued that "open access to and availability of corporate ESG data are increasingly needed to ensure higher quality and comparability of sustainability disclosure²³." In this regard, open access data repositories such as the European Single Access Point (ESAP) and the Net-Zero Data Public Utility (NZDPU) are being designed to tackle (some) of the issues associated with data availability and accessibility.

19 Principles for Responsible Investment, "Shifting Perceptions: ESG, Credit Risk, and Ratings," (2023), p. 5. <https://www.unpri.org/download?ac=18381>.
20 Network for Greening the Financial System, "Progress report on bridging data gaps," (2021): 1-51, https://www.ngfs.net/sites/default/files/medias/documents/progress_report_on_bridging_data_gaps.pdf.
21 Ibid.
22 The SustainAbility Institute by ERM, "Rate the Raters 2023 – ESG Ratings at a Crossroads," (2023): 1-56. <https://www.sustainability.com/globalassets/sustainability.com/thinking/pdfs/2023/rate-the-raters-report-april-2023.pdf>.
23 Future of Sustainable Data Alliance, "ESG Data Gaps and Holes: Update of the Corporate ESG analysis 2022," (2022), p. 15, https://futureofsustainabledata.com/wp-content/uploads/2022/11/FoSDA-Corporate-ESG-Data-Gaps-and-Holes-Report-2022_.pdf.

Key initiatives to watch

The Net-Zero Data Public Utility (NZDPU)

During COP27, the Climate Data Steering Committee (CDSC) announced the creation of an open-data public repository on net-zero climate transition data. The objective is “to bring transparency to efforts to transition to a net-zero economy by addressing data gaps, inconsistencies, and barriers to information that slow climate action.” The NZDPU is being designed to be part of the UNFCCC’s Global Climate Action Portal (GCAP).

Currently at its pilot phase, the NZDPU focuses on GHG emissions data from Scopes 1, 2, and 3, including emissions target and carbon credit data, and expects to release the beta pilot version by the end of 2023.

For more information, access the draft recommendations for the development of the NZDPU [here](#).

Data gaps

Connected to the challenges of data availability are ESG data gaps and holes. FoSDA defines data gaps as “instances where reporting frameworks exist, and datasets are requested and collected – but they are not always adequately populated²⁴.” Data holes are defined as “instances where there are limited robust frameworks, guidance, or best practices, and where at times there is uncertainty about what exact data would be needed or most useful²⁵.” The presence of data gaps and holes have led reporting entities to adopt multiple approaches to calculation and estimation of datapoints, such as GHG emissions²⁶. However, because these entities do not always disclose their methods used to fill data gaps, this practice may blur the transparency of the data. This has also impacted how ESG ratings and data product providers collect and treat ESG data – a shortcoming that will be addressed later in this paper.

In the context of climate-related data, gaps and holes may undermine companies’ net-zero commitments, according to the United Nations Environment Programme Finance Initiative (UNEP FI)²⁷. To address this issue, the NGFS recommends policymakers to dedicate significant attention to increasing the availability of granular data on GHG emissions, which are fundamental to measuring impacts and progress towards net-zero²⁸.

24 Future of Sustainable Data Alliance, “FoSDA launches its flagship review of ESG Data Gaps and Holes at COP27,” FoSDA, November, 2021, pa. 3, <https://futureofsustainabledata.com/wp-content/uploads/2022/11/FoSDA-Press-release-ESG-Data-Gaps-and-Holes.pdf>.

25 Ibid.

26 Climate Data Steering Committee, “Recommendations for the Development of the Net-Zero Data Public Utility,” (2022): 1-53, <https://assets.bbhub.io/company/sites/71/2022/11/development-of-the-net-zero-data-public-utility-november-2022.pdf>.

27 UN Environment Programme Finance Initiative, “High-Level Recommendations for Credible Net-Zero Commitments from Financial Institutions,” (2021): 1-20, <https://www.unepfi.org/wordpress/wp-content/uploads/2021/10/Recommendations-for-Credible-FI-NZ-Commitments.pdf>.

28 Network for Greening the Financial System, “Progress report on bridging data gaps,” (2021): 1-51, https://www.ngfs.net/sites/default/files/medias/documents/progress_report_on_bridging_data_gaps.pdf.

Key initiatives to watch

FoSDA's work on ESG Data Gaps and Holes

As a proactive voice in the sustainable data ecosystem, FoSDA seeks to enable the power of financial markets to tackle global environmental and social challenges through comprehensive and high-quality data and products. FoSDA was formed in Davos in January 2020, spearheaded by Refinitiv and the World Economic Forum. FoSDA's membership includes, among others, S&P Global, Moody's, LSEG, Bloomberg, SIX, ESG Book, Clarity AI, Greenomy, CDP, Climate Bonds Initiative, OMFIF and Icebreaker One.

Among the working groups FoSDA focuses on is ESG Data & Methods. Its purpose is to "dig deeper into the datasets that really matter for various use cases and financial market segments²⁹." In previous years, the working group was called ESG Gaps & Holes and included members of the FoSDA "Data Council". Through this work, FoSDA published at COP27 its flagship review of ESG Data Gaps and Holes³⁰. The report reveals which corporate and sovereign ESG datasets are most critical to improve sustainability disclosure, and it also identifies which datapoints (ie core metrics) are considered "must-have" for environmental, social, governance, and economic related issues. For corporate reporting, FoSDA has identified the following must-haves³¹:

For more information, access the full report [here](#).



1 Environmental: GHG emission targets, scope 1, 2 & 3, GHG emissions generated by real estate assets, GHG intensity of countries, temperature alignment, activity-level GHG emissions, renewable vs non-renewable power generation, fossil fuel reserves, water withdrawals.



2 Governance: Response to the operational risks, number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws, cost of fines, penalties or settlements, cases of insufficient action taken to address breaches of standards of anti-corruption and anti-bribery and cybersecurity.



3 Economic: Production and sale of banned and/or controversial products and services.



4 Social: Workplace injuries & fatalities and employee health, safety & wellbeing.

²⁹ FoSDA, "FoSDA 2023 Workstreams," <https://futureofsustainabledata.com/fosda-2023-workstreams/>.

³⁰ <https://futureofsustainabledata.com/fosda-launches-its-flagship-review-of-esg-data-gaps-and-holes-at-cop27/>

³¹ Future of Sustainable Data Alliance, "ESG Data Gaps and Holes: Update of the Corporate ESG analysis," (2022), p. 13, https://futureofsustainabledata.com/wp-content/uploads/2022/11/FoSDA-Corporate-ESG-Data-Gaps-and-Holes-Report-2022_.pdf.



Users and providers of ESG ratings and data products have both expressed difficulties in accessing and making comparable data available.



2.1.2. Data comparability

The fragmentation of the ESG disclosure ecosystem has also undermined the comparability of ESG and climate-related data.

This issue has been identified by the Organization for Economic Cooperation and Development (OECD), in its report *ESG Investing Practices: Progress and Challenges*, which states that the lack of comparability of ESG metrics “make it difficult for investors to draw the line between managing material ESG risks within their investment mandates and pursuing ESG outcomes that might require a trade-off in financial performance.” This challenge is associated with a study conveyed by scholars Amel-Zadeh and Sarafeim, who have identified that the lack of comparability across ESG metrics is one of the largest impediments for the integration of ESG data into investment decisions³³.

This challenge has also been identified in the interviews conducted by CDP. Users and providers of ESG ratings and data products have both expressed difficulties in accessing and making comparable data available. They associate this challenge with the lack of worldwide mandatory disclosure requirements as well as diverging reporting standards, but also express their hope that initiatives such as the International Sustainability Standards Board (ISSB) and the European Sustainability Reporting Standards (ESRS) may increase consistency and interoperability of ESG data.

To ensure comparability across ESG and net-zero metrics, the OECD has recommended the standardization of ESG “core metrics” (datapoints), an idea also shared by FoSDA and NGFS, who have called upon reporting standard setters to define key performance indicators and calculation methods³⁴.

33 Amir Amel-Zadeh and George Serafeim, “Why and How Investors Use ESG Information: Evidence from a Global Survey,” *Financial Analysts Journal* 64, issue 3, (2017): 87-103, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2925310.

34 Network for Greening the Financial System, “Progress report on bridging data gaps,” (2021): 1-51, https://www.ngfs.net/sites/default/files/medias/documents/progress_report_on_bridging_data_gaps.pdf.

Key initiatives to watch

CDP to incorporate ISSB climate-related disclosure standard into global environmental disclosure platform

On November 8th, 2022, CDP and the IFRS Foundation announced³⁵ that CDP will incorporate the International Sustainability Standard Board's (ISSB) IFRS S2 Climate-related Disclosures Standards (IFRS S2) into its global environmental disclosure platform from 2024. This is a major step towards providing a shared language for companies to disclose their climate-related risks and opportunities. The standard released in June 2023 will be incorporated into CDP's 2024 disclosure cycle, which is issued to companies annually on behalf of 740 financial institutions with over \$130 trillion in assets.

CDP's decision, a signal of its commitment to delivering robust environmental disclosure to the market, accelerates the early adoption of IFRS S2 disclosures, thereby providing investors with consistency of climate-related information they need sooner, and reducing the reporting burden on entities through an alignment of requirements.

CDP has committed to developing its disclosure platform according to best-practice disclosure standards and methodologies, integrating impactful and high-quality regulation and standards where they exist, bringing them together in one place to provide streamlined datasets to the market, regulators and governments, and drive progress towards global harmonization of disclosure standards.

2.1.3. Transparency of data

The variety of frameworks on how to report ESG and climate-related data often leads to the adoption of different methodological approaches, which subsequently bring implications to data comparability. According to the IIGCC, little consistency across the underlying data is found when analyzing different asset classes covered by a provider. In the case of net-zero data, for instance, the use of different assumptions and scenarios may lead to significantly different results³⁶.

³⁵ <https://futureofsustainabledata.com/fosda-launches-its-flagship-review-of-esg-data-gaps-and-holes-at-cop27/>

³⁶ IIGCC. "Improving net zero data provision: Six asks of data vendors," (2023): 1-29, <https://www.iigcc.org/download/six-asks-of-data-vendors/?wpdmdl=7662&refresh=6454c3175e4731683276567>.

Similar findings were published by the NGFS, suggesting that from 1,200+ data items, approximately

 **39%** were based on estimations, and less than

 **25%** were based on official statistics or verified data³⁷.

These numbers illustrate the need to (i) inform whether the data informed is an estimation, an industry average, or an actual calculation, and (ii) which methodology was adopted to obtain such results.

Concerns around this topic have been put forward by the CDSC, which stated that “the lack of clear delineation between estimated/ modeled versus reported emissions data and variance in emissions estimation methodologies further complicates the climate transition-related data landscape³⁸.” To address this issue in a larger scale, including both ESG and climate-related data, IOSCO has recommended in its *Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report* a clear, transparent, and standardized distinction between estimated and reported data³⁹. This distinction is deemed necessary to also address diverging results of ESG ratings, indices, and benchmarks.

2.2. Ex post challenges

A fragmented ESG disclosure ecosystem and an imperfect data environment are challenges that ESG ratings and data products have inherited, and to a certain extent, tried to overcome by designing different methodologies and processes to collect and analyze data. As a consequence, however, other issues including diverging results and complex methodologies have arisen.

While section 2.1 reviewed *ex ante* challenges, which precede the design of ESG ratings and data products, this section reviews *ex post* challenges, which are directly associated to the construction and provision of these assessment tools.

³⁷ Network for Greening the Financial System, “Progress report on bridging data gaps,” (2021): 1-51, https://www.ngfs.netsites/default/files/medias/documents/progress_report_on_bridging_data_gaps.pdf.

³⁸ Climate Data Steering Committee, “Recommendations for the Development of the Net-Zero Data Public Utility,” p.4.

³⁹ IOSCO, “Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report,” (2021): 1-53. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.



The concern about companies cherry-picking their ratings and using them as a tool for greenwashing has also been raised by asset managers during CDP's interviews.



2.2.1. Diversity of methodologies

One of the most discussed points about ESG ratings and data products refers to the diverging results these assessments convey. In 2019, Berg et al. coined the term “aggregate confusion” while investigating the divergence of results across ESG ratings. In their research, while indicators used for credit rating scores showed a correlation of 99%, correlation for indicators was found at 61% among six major ESG ratings providers⁴⁰. This lower convergence was explained by differences in scope, measurement, and weights of ESG-related categories for the ratings⁴¹.

To the OECD, other factors may also explain diverging results across ESG ratings and data products, including the use of different disclosing frameworks, interpretation of materiality, incorporation of controversies, and qualitative expert judgement⁴². To Kotsantonis and Serafeim, disagreements may also arise due to benchmarking processes, as providers adopt different approaches to classify “best in class,” including using a universal sample, an industry peer group, or a certain definition of performance⁴³.

Experts, policymakers, users, and providers have engaged in discussions around the advantages and disadvantages of diverging results from ESG ratings and data products. The same authors who coined *aggregate confusion* have argued that “ESG ratings do contain a signal” with valuable information⁴⁴.

In 2022, the SustainAbility Institute by ERM published an article explaining that “variation [of results] blurs investors’ understanding of sustainability risk and performance at both equity and portfolio level. It also tempts corporations to focus on flattering ESG ratings and ignore indicators of trouble that critical ratings might signal⁴⁵.”

The concern about companies cherry-picking their ratings and using them as a tool for greenwashing has also been raised by asset managers during CDP's interviews. It is possible to affirm that the divergence of results has impacted how investors use ESG ratings and data products. In the interviews, most have indicated integrating

40 Florian Berg, Julian F. Kolbel and Roberto Rigobon. “Aggregate Confusion: The Divergence of ESG Ratings,” Forthcoming Review of Finance (2019): 1-48, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3438533.

41 Ibid.

42 Boffo, R., and R. Patalano, “ESG Investing: Practices, Progress and Challenges”, OECD Paris (2020): 1-85, www.oecd.org/finance/ESG-Investing-Practices-Progress-and-Challenges.pdf.

43 Sakis Kotsantonis and George Serafeim, “Four Things No One Will Tell You About ESG Data,” Journal of Applied Corporate Finance 31, no. 2 (Spring 2019): 50-58, <https://www.hbs.edu/faculty/Pages/item.aspx?num=56372>

44 Florian Berg, Jason Jay, Julian Kolbel, and Roberto Rigobon, “The Signal in the Noise,” EconPol Forum (2023): 23-28, <https://www.cesifo.org/DocDL/econpol-forum-2023-1-berg-jay-koelbel-rigobon-signal-noise.pdf>.

45 Aiste Brackley, Emily K. Brock, and Justin Nelson, “Rating the Raters Yet Again: Increasing ESG Scrutiny Makes Current Rate the Raters Study Even More Crucial,” The SustainAbility Institute by ERM, December 21, 2022, <https://www.sustainability.com/thinking/rating-the-raters-yet-again-increasing-esg-scrutiny-makes-current-rate-the-raters-study-even-more-crucial/>.

Most providers and users interviewed stated that ESG and climate-related data should be standardized, but not the results deriving from them.

a handful of products in their investment decision analysis – a trend which corroborates with IOSCO’s findings from 2021⁴⁶. The rationales behind this choice are diverse: some use it to find converging aspects across ratings and data products, while others create a more thorough investment analysis given that ratings may differ in the topics they cover.

For this second group of investors, as well as for providers, the divergence of results is perceived as beneficial with the caveat that methodologies are transparent. They draw from the arguments posed by the OECD and by Kotsantonis and Serafeim to explain the reasons for divergence. In addition, they rely on two other points to favor diverging results. The first connects to the imperfect data environment discussed in Section 2.1. Most providers and users interviewed stated that ESG and climate-related data should be standardized, but not the results deriving from them. The second regards the “multiplicity of needs” from investors, meaning that investors may have different mandates to allocate capital on specific ESG and climate-related issues, including aligning their portfolios with net-zero mandates. Therefore, they perceive it as beneficial to have a plethora of assessment tools both ample and specific to environmental, social and/or governance related themes.

46 IOSCO, “Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report,” (2021): 1-53. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.



Net-zero portfolio alignment metrics

As investors commit to make finance flows support the transition to a net-zero economy, portfolio alignment metrics are important tools that help them assess the level of alignment of their portfolios with the 1.5°C goal of the Paris Agreement.

Similar to other ESG ratings and data products, net-zero portfolio alignment metrics are built from an imperfect data environment and are often estimated through different methodologies. According to GFANZ, at least four different methodologies have been adopted by providers which are:

-  **1 Binary approach:** provides the percentage of companies in a portfolio with validated science-based targets.
-  **2 Benchmark divergence:** assesses portfolio alignment at the individual company level by comparing the company's emissions to a benchmark budget based on a 1.5°C aligned scenario.
-  **3 Implied Temperature Rise (ITR):** Uses the benchmark divergence method to generate a temperature score measuring the alignment of companies' projected future emissions (intensity) to a specific end-of-century global warming outcome.
-  **4 Maturity scale metrics:** Draws from quantitative and qualitative assessments of several factors, including reduction targets, past performance, disclosure, and governance to assign companies a category of "aligned", "aligning", "committed to aligning" or "not aligned"⁴⁷.

Each methodology has benefits and limitations. However, because they are built on different assumptions, their results may have a poor correlation⁴⁸ – just like the findings from Berg et al's *Aggregate Confusion*. The lack of transparency around these assumptions and overall methodologies may hinder companies, investors, and policymakers from fully comprehending what net-zero portfolio alignment metrics actually analyze.

⁴⁷ Glasgow Financial Alliance for Net Zero, "Measuring Portfolio Alignment: Enhancement, Convergence, and Adoption," (2023): 1-140, <https://assets.bbhub.io/company/sites/63/2022/07/GFANZ-Portfolio-Alignment-Measurement-August2022.pdf>.

⁴⁸ Ibid.



The lack of transparency around external ESG ratings methodologies is a key factor in encouraging users to build proprietary rating methodologies.

IOSCO, 2021



2.2.2. (Non-) Transparency of methodologies

Associated with the discussion of diversity of methodologies, and connected to the shortcomings of data transparency, is the lack of transparency of ESG ratings and data products methodologies.

In 2020, the OECD identified in its report that ESG ratings and other products had different levels of transparency, with variations on the level of disclosure about indicator, categories and subcategories for scoring, weighting, and approach to materiality⁴⁹. In 2021, IOSCO also identified this issue, and it suggested that “the lack of transparency around external ESG ratings methodologies is a key factor in encouraging users to build proprietary rating methodologies⁵⁰.”

Further, IOSCO identified an appetite “for increased transparency and disclosures of the methodologies used by ESG ratings and data products providers, including the ESG factors used, the weight of each factor, absolute or relative scoring, materiality, and industry ranking considerations⁵¹.” These findings contributed to the set of recommendations and Call for Action published by IOSCO, which will be reviewed in Chapter 3.

2.2.3. Coverage and costs

The coverage of ESG ratings and data products is constrained by the limitations of the coverage of ESG and climate-related data. In this sense, IOSCO’s research has identified that ESG ratings and data products are more widely available in jurisdictions where mandatory disclosure is – or already has become – the norm⁵². This is also the case with publicly listed versus private companies, as the latter remains outside the scope of most – if not all – providers. Being publicly listed, however, does not necessarily mean that a company will be included in the ESG assessments. Companies listed on stock exchange markets in Europe and North America are far more likely to receive ratings according to IOSCO’s report.

The costs associated with ESG ratings and data providers are also not equally accessible to investors or corporations. A study conducted by ERM Research found that 33 institutional investors spend an average of \$487,000 per year on external ESG ratings, data, and consultants⁵³.

49 Boffo, R., and R. Patalano, “ESG Investing: Practices, Progress and Challenges”, OECD Paris (2020): 1-85, www.oecd.org/finance/ESG-Investing-Practices-Progress-and-Challenges.pdf.

50 IOSCO, “ESG Ratings and Data Products Providers Final Report,” p. 27.

51 IOSCO, “ESG Ratings and Data Products Providers Final Report,” p. 29.

52 IOSCO, “Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report,” (2021): 1-53. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

53 Mark Lee, Emily K. Brock, Doug MacNair, “Costs and Benefits of Climate Related Disclosure Activities by Corporate Issuers and Institutional Investors,” SustainAbility Institute by ERM, (2022): 1-23, <https://www.sustainability.com/globbalassets/sustainability.com/thinking/pdfs/2022/costs-and-benefits-of-climate-related-disclosure-activities-by-corporate-issuers-and-institutional-investors-17-may-22.pdf>



80-100%

of revenues on ESG ratings derive from the subscriber pay model according to IOSCO.

The financial costs of these tools have also been raised by policymakers concerned with proportionality, as smaller investors may not have the financial capacity to invest in these tools. In addition, given the complexity of the methodologies around ESG ratings and data products, policymakers (and investors themselves) also worry that investment analysts may lack the technical knowledge or human capital necessary to use these tools appropriately. Therefore, to overcome these challenges, several asset managers and asset owners opt to develop their own in-house methodologies, aligned to their capabilities and sustainable investment frameworks.

2.2.4. Conflicts of interest

ESG ratings and data products providers may also offer other services, often associated with ESG performance, to companies who already are or may eventually be rated. These services include consulting services, certifications, and second-party opinions which can provide additional insight into how ESG ratings and other products are estimated. They can also provide guidance on reporting specific information that influences performance on ratings⁵⁴. Through these “ancillary services”, conflicts of interest can arise as potential rated companies may have access to privileged information.

The *subscriber* pay model implemented by most providers may also contribute to concerns around conflicts of interest. In this model, the entity being rated bears the financial costs associated with the service, becoming a “direct client” of the rating entity. In this regard, concerns around the influence such clients may have on rating entities arise. According to IOSCO, 80-100% of revenues on ESG ratings derive from the *subscriber* pay model⁵⁵.

Lastly, another type of conflict of interest may arise when the business model of a rating agency covers both ESG ratings and credit ratings. Research conducted by Li et al. (2022) finds that these specific agencies may issue higher ESG ratings for existing credit rating clients, relative to firms with no commercial ties to the rater⁵⁶.

54 IOSCO, “Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report,” (2021): 1-53. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

55 Ibid.

56 Li, Xuanbo and Lou, Yun and Zhang, Liandong, “Do Commercial Ties Influence ESG Ratings? Evidence from Moody’s and S&P” (2022): 1-57. <http://dx.doi.org/10.2139/ssrn.4190204>

2.2.5. Interactions between providers and rated entities

The current absence of guidelines on ESG ratings and data products providers has also impacted on how they interact with rated entities. According to IOSCO, companies and ESG service providers interact mostly during the processes of data collection and data assessment. Each process carries different engagement challenges⁵⁷. During data collection, challenges involve how time-consuming the process can be, as it involves frequent and large number of questions and data points in questionnaires. It also relates to the lack of explanation and support for questions asked to rated entities⁵⁸.

In the data assessment process, the lack of transparency of evaluation methodology makes it difficult for rated entities to improve their business models and move forward in their sustainability transition. In addition, constant updates on ESG ratings and data products' methodologies may also impact the assessment of the rated entities. While technical updates are crucial to secure the quality and scientific orientation of the products, the lack of communication about this process may negatively influence how businesses measure, monitor, and report their ESG issues⁵⁹.

Other challenges may relate to the lack of challenges created by service providers to receive feedback from rated entities. This may result in the use of obsolete or incorrect information, which may also negatively affect the decision-making process of investors and even of policymakers. The interviews with asset managers confirmed this to be an issue, as the absence of information on the timing of the data often led to questions and uncertainties in interpreting the results.

57 Li, Xuanbo and Lou, Yun and Zhang, Liandong, "Do Commercial Ties Influence ESG Ratings? Evidence from Moody's and S&P" (2022): 1-57. <http://dx.doi.org/10.2139/ssrn.4190204>

58 Ibid.

59 Ibid.



Regulatory developments



3

Regulatory developments

The proliferation of ESG ratings and data products, followed by their integration into capital markets, has attracted the attention of policymakers and regulators across the globe. In 2020, the OECD pioneered this debate publishing one of the first reports with recommendations on the functioning and provision of these tools. The following year, IOSCO and other national markets authorities took a closer look at the market and practices of ESG ratings and data products providers by conducting fact-finding exercises and consultations.

In November 2021, IOSCO published a report consolidating its findings and providing a set of recommendations for providers. This report paved the way for other jurisdictions to draft and consult on their codes of conduct and legislative proposals.

This chapter reviews the regulatory developments thus far on the topic of ESG ratings and data products providers. It summarizes the main recommendations put forward by international organizations and outlines how different jurisdictions have or are transposing these recommendations. In addition, this chapter draws from the interviews conducted by CDP with ESG ratings and data products providers, users, and policymakers to review their respective policy asks, as well as to discuss limitations and opportunities for future policymaking.

3.1 Policy recommendations issued by international organizations

IOSCO and the OECD have issued reports on the topic, followed by a set of recommendations to market players, asset managers, and regulators with guidelines for the use, provision, and regulation of ESG ratings and data products. The recommendations put forward by these organizations cover a wide range of the shortcomings discussed in Chapter 2. Common to both are (i) ensuring the transparency of methodologies of ESG ratings and data products, (ii) promoting consistency, comparability, and quality of ESG data, and (iii) establishing communication channels among providers and rated entities. Table 1 summarizes and compares the recommendations posed by the two organizations.

Table 1. Summary of topics addressed in the set of recommendations issued by IOSCO⁶⁰ and the OECD⁶¹

Main topics	IOSCO	OECD
Enhancing transparency: disclosure of methodologies, weights, indicators	X	X
Ensuring comparability, consistency, and quality of data	X	X
Leveling the playing field between large and small issuers / ensuring fair competition		X
Promoting stakeholder engagement at the global level		X
Regulating within jurisdiction / adopting a more regional/local approach	X	
Addressing, mitigating, and preventing potential conflicts of interest	X	
Improving data gathering process & communications between disclosing entities and providers	X	X
Appropriate labelling and disclosure of ESG products		X

IOSCO's *Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report*, published in November 2021, influenced the policy debate across many jurisdictions. The extensive research provided on the functioning of the market provided an in-depth understanding of its shortcomings, and consequently, of opportunities for regulatory intervention.

While other reports had already sought to define ESG ratings and data products, IOSCO provided a new set of definitions which considers ESG scores part of ESG ratings; raw data, screening tools, and controversies alerts as part of ESG data products; and which creates a third category of "ESG data related products" that includes ESG indices, consulting services, provision of certification and second-party opinions, among others⁶². These definitions have served as a baseline for jurisdictions to build upon.

IOSCO's recommendations have been echoed in the different policy initiatives regulators are drafting or implementing across the globe. The next section reviews the timeline of these events and is followed by a review on the limitations of the current regulatory developments.

60 IOSCO, "Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report," (2021): 1-53. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

61 Boffo, R., and R. Patalano, "ESG Investing: Practices, Progress and Challenges", OECD Paris (2020): 1-85, www.oecd.org/finance/ESG-Investing-Practices-Progress-and-Challenges.pdf.

62 IOSCO, "Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report," (2021): 1-53. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

3.2. Policy initiatives across jurisdictions

Before the launch of IOSCO's report in November 2021, a few jurisdictions were already taking a closer look at ESG ratings and data products.

- 2020** ● In 2020, the French Autorité des Marchés Financiers (AMF) and the Dutch Autoriteit Financiële Markten (AFM) published a joint position paper advocating for a mandatory regulatory framework at European level⁶³. They advocated for a regulation to require greater transparency on methodologies and to address managing conflicts of interest. They also recommended providers to be subject to authorization and supervision by the European Securities and Market Authority (ESMA).
- 2021** ● In June of 2021, the UK Financial Conduct Authority (FCA) conducted a public consultation entitled "Enhancing climate-related disclosures by standard listed companies and seeking views on ESG topics in capital markets⁶⁴." Among other topics, the FCA posed questions on the provision of ESG ratings and data products, exploring shortcomings, potential guidance lines for users, appetite for closer regulatory oversight, and potential shape of regulations. At a similar time, IOSCO opened a consultation on ESG ratings and data products which would be input to the final report from November 2021⁶⁵.
- 2022** ● IOSCO's publication was followed by several countries consulting on the provision of ESG ratings and data products. In 2022, jurisdictions including India, Japan, Singapore, and the European Union, both through ESMA and the European Commission, conducted fact-finding exercises and consultations. These focused primarily on the same topics introduced by IOSCO's report, with a few nuances on the definitions of ESG ratings and data products, variations on the tone of recommendations (eg employing "should" vs. "must" clauses) and being specific on what aspects of the methodologies need to be disclosed.

In November 2022, and just in time for COP27, IOSCO published a Call for Action calling upon "voluntary standard setting bodies and industry associations operating in financial markets to promote good practices among their members to counter the risk of greenwashing related to asset managers and ESG rating and data providers⁶⁶." The document outlined five good practices for asset managers to adopt regarding the selection, comprehension, and use of sustainability-related products,

63 See Autorité des Marchés Financiers and Autoriteit Financiële Markten, "Position paper: Call for a European Regulation for the provision of ESG data, ratings, and related services," (2020), 1-10, <https://www.amf-france.org/sites/default/files/private/2020-12/amf-afm-position-paper-call-for-a-european-regulation-for-providers-of-esg-data-ratings-and-related-services.pdf>.

64 Financial Conduct Authority, "Enhancing climate-related disclosures by standard listed companies and seeking views on ESG topics in capital markets," CP21/18 (June 2021): 1-64, <https://www.fca.org.uk/publication/consultation/cp21-18.pdf>.

65 IOSCO, "Environmental, Social and Governance (ESG) Ratings and Data Products Providers Consultation Report," (2021): 1-56, <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD681.pdf>.

66 IOSCO, "IOSCO Good Sustainable Finance Practices for Financial Markets Voluntary Standard Setting Bodies and Industry Associations Call for Action," 2022, p. 1, <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD717.pdf>.

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including ESG ratings and data products. It also outlined seven other good practices for ESG ratings and data products providers to adopt, which were aligned to the recommendations IOSCO had issued in the 2021 report⁶⁷.

In December 2022, Japan's Financial Services Agency (FSA) pioneered as the first jurisdiction to introduce a "Code of Conduct for ESG Evaluation and Data Providers"⁶⁸. The Code, inspired by IOSCO's recommendations, was the first document issued by a national jurisdiction setting guidelines for the use and provision of ESG ratings and data products. Principles-based, adherence to the code is voluntary and based on a "comply or explain" rationale. It introduces six principles to be followed by providers and focused on securing quality of products; ensuring transparency, independence and managing conflict of interest; establishing policies and procedures to protect confidentiality; and enhancing communication with rated entities⁶⁹.

Japan's Code of Conduct has inspired other jurisdictions to take a similar approach. Still in 2022, the UK FCA announced the creation of a working group composed by government officials, rated companies, providers, users, and experts from academia and civil society to develop a voluntary Code of Conduct for ESG ratings and data products⁷⁰. The UK FCA also indicated to be studying, alongside HM Treasury, whether more stringent regulation and oversight should follow.

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In line with this exercise, HM Treasury launched in March 2023, a consultation on "Future regulatory regime for ESG ratings providers." Different from codes of conduct, however, this consultation aims at regulating the provision of ESG ratings alone. In the document, HM Treasury indicates an understanding that ESG ratings differ from credit ratings, and therefore states that the UK would not seek to harmonize methodologies for ESG ratings. Different from other jurisdictions, it defines an ESG rating more broadly, as "an assessment regarding one or more environmental, social, and governance factors, whether or not it is labeled as such"⁷¹.

67 The good practices cover recommendations on transparency; managing and mitigating conflict of interest; adopting clear and definitions and transparent methodologies; improving information gathering processes; and facilitating the interaction and feedback process between providers and covered entities. For more information see IOSCO, "IOSCO Good Sustainable Finance Practices for Financial Markets Voluntary Standard Setting Bodies and Industry Associations Call for Action," (2022): 1-8, <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD717.pdf>.

68 Financial Services Agency, "The Code of Conduct for ESG Evaluation and Data Providers," (2022): 1-43, <https://www.fsa.go.jp/news/r4/singi/20221215/02.pdf>

69 Ibid.

70 Financial Conduct Authority, "Terms of Reference – ESG Data and Ratings Code of Conduct Working Group," <https://www.fca.org.uk/publication/documents/drwg-terms-of-reference.pdf>

71 HM Treasury, "Future regulatory regime for Environmental, Social, and Governance (ESG) ratings providers," p. 15, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1147458/ESG_Ratings_Consultation_.pdf

In India, the Securities and Exchange Board of India (SEBI) launched a second consultation to discuss the regulation of ESG ratings providers⁷², followed by SEBI's Board approval of a proposal to introduce a regulatory framework for ESG ratings providers by introducing a new chapter in the SEBI Credit Rating Agencies Regulations from 1999. While the final amendment has not been published by the time of writing, India has indicated it may take an approach which diverges from other jurisdictions by associating ESG ratings to credit ratings regulations⁷³.

In Europe, the European Commission, through its Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA), has put forward a "Sustainable finance package", which includes a proposal to regulate the provision of ESG ratings. In its proposal, the Commission argues that regulatory intervention is needed to address current shortcomings in the market. It requires, *inter alia*, ESG ratings providers to be authorized and supervised by ESMA, to disclose information related to their ratings methodologies, and to separate ESG ratings from other activities a company may engage with.

In Asia, the Monetary Authority of Singapore is expected to consult on a draft Code of Conduct in 2023. Regulators in other jurisdictions, including Hong Kong and Thailand, have signaled that they intend to enact or enhance regulation of ESG data products and ratings.

72 Securities and Exchange Board of India, "Consultation paper on ESG Disclosures, Ratings and Investing," (2023): 1-27, https://www.sebi.gov.in/reports-and-statistics/reports/feb-2023/consultation-paper-on-esg-disclosures-ratings-and-investing_68193.html

73 Securities and Exchange Board of India, "SEBI Board Meeting," (2023): 1-13, https://www.sebi.gov.in/media/press-releases/mar-2023/sebi-board-meeting_69552.html

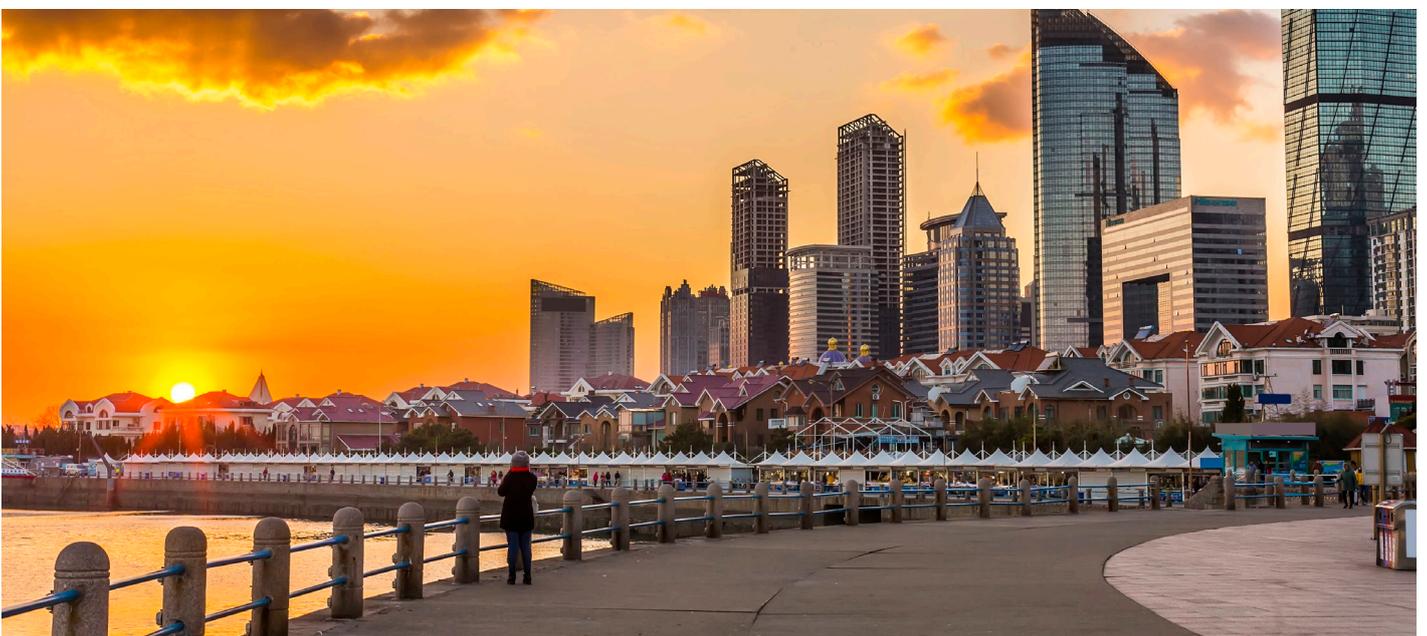


Figure 1 indicates the jurisdictions that have indicated they will be or are already engaged on this topic. For a more detailed list of policy initiatives (e.g., consultations, codes of conducts, and regulatory proposals) please refer to Appendix A.

Figure 1. Map of jurisdictions engaging on regulatory developments for the provision of ESG ratings and data products



3.3. Comparative analysis of policy initiatives and their limitations

ESG ratings and data products are part of a relatively new, global, and fast-changing market with innovations being rapidly developed. Therefore, while policymakers and regulators start to introduce policies and regulations on the functioning of this market, it is expected that they may come with certain limitations given the fast-paced nature of innovation.

This section reviews and compares the policy initiatives introduced by IOSCO, Japan's FSA, SEBI, and the European Commission to discuss similarities, differences, and limitations across codes of conduct and regulatory frameworks. This analysis demonstrates where convergence and/or fragmentation in the regulatory framework exist, and it also indicates opportunities for further policymaking on the topic when limitations are found.

For this analysis, the following policy initiatives have been considered:

- ▶ IOSCO's Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report⁷⁴
- ▶ Japan's FSA Code of Conduct for ESG Evaluation and Data Providers⁷⁵
- ▶ HM Treasury Consultation on Future regulatory regime for Environmental, Social, and Governance (ESG) ratings providers⁷⁶
- ▶ SEBI's Consultation Paper on Regulatory Framework for ESG Rating Providers (ERPs) in Securities Market⁷⁷
- ▶ SEBI's Consultation Paper on ESG Disclosures, Ratings and Investing⁷⁸
- ▶ European Commission's Proposal for a Regulation on the Transparency and Integrity of Environmental, Social and Governance (ESG) Rating Activities⁷⁹ and its annexes⁸⁰

74 <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>

75 <https://www.fsa.go.jp/news/r4/singi/20221215/02.pdf>

76 <https://www.gov.uk/government/consultations/future-regulatory-regime-for-environmental-social-and-governance-esg-ratings-providers>

77 https://www.sebi.gov.in/reports-and-statistics/reports/feb-2023/consultation-paper-on-regulatory-framework-for-esg-rating-providers-erps-in-securities-market_68337.html

78 https://www.sebi.gov.in/reports-and-statistics/reports/feb-2023/consultation-paper-on-esg-disclosures-ratings-and-investing_68193.html

79 https://ec.europa.eu/finance/docs/law/230613-proposal-sustainable-finance_en.pdf

80 Ibid.

3.3.1. Regulatory frameworks

Regulators in Europe and in the UK have proposed new regulatory frameworks for ESG ratings. Their approach is based on the understanding that these tools are different from credit ratings, and therefore, should be regulated through a new regulation. In India, SEBI, however, has taken a different approach by deciding to amend its Credit Ratings Agency Regulation from 1999. ESG ratings and credit ratings differ significantly in their objectives, input data, methodologies, and procedures. Therefore, India's approach raises concerns, as it can create confusion among market players and regulators.

3.3.2. Definitions

While IOSCO's definitions are the common starting point among regulators to define ESG ratings and data products, the definitions proposed by HM Treasury, the European Commission, SEBI, and Japan's FSA do not converge. Significant nuances indicate that in each jurisdiction, the scope of regulation may be stricter or broader. The table below compares the definitions employed by IOSCO and regulators in the UK, Europe, Japan, and India.

As can be observed, the definition proposed by IOSCO may have inspired SEBI and the European Commission. However, these three definitions still vary significantly in their end results. In the case of SEBI, an ESG rating would be considered so only if:

- ▼ it contains an opinion, and
- ▼ if this opinion regards an entity that will be or already is listed in a stock exchange.

Meanwhile, the Commission's definition includes both an opinion *and* a score, and it goes beyond suggesting that an ESG rating must be issued for an entity somehow related to a stock exchange. In HM Treasury's case, the definition becomes even broader as it simply defines it as an assessment regarding ESG factors.

The nuances observed across jurisdictions pose significant challenges to regulators and market players, as ESG ratings may mean different things in different geographies. This regulatory divergence can lead to market confusion, increase compliance complexities for providers and users of these services, and create a significant fragmentation in the

regulatory architecture of ESG ratings and data products. Moreover, it may also hinder policymakers from achieving their main objectives in this space: regulate the functioning of the market, increase transparency and trust, and ensure these tools are used for public good, away from greenwashing and social-washing schemes.

Table 3. Comparison of policy initiatives defining ‘ESG ratings’

<p>IOSCO’s Final Report</p>	<p>“Refer to the broad spectrum of rating products in sustainable finance and include ESG scorings and ESG rankings. ESG ratings, rankings and scorings serve the same objective, namely the assessment of an entity, an instrument or an issuer exposure to ESG risks and/or opportunities. However, they differ in the resources and methodologies used. ESG scores usually result from quantitative analysis whereas ESG ratings are produced using both quantitative models and qualitative analysis and are accompanied by analyst reports to explain the ratings. On that basis, ratings may therefore incorporate an element of analytical judgement or opinion. Ratings providers select key issues for each ESG component and assess the exposure to these sustainability risks and the way in which they are managed. ESG ratings, scorings, and rankings are usually not defined in absolute terms (although some are) but are generally assessments relative to a peer group⁸¹.”</p>
<p>Japan’s FSA Code of Conduct</p>	<p>Does not specify</p>
<p>HM Treasury Consultation</p>	<p>“An assessment regarding one or more environmental, social, and governance factors, whether or not it is labelled as such⁸².”</p>
<p>SEBI’s Regulatory Framework</p>	<p>“Refer to the broad spectrum of ratings products that are marketed as providing an opinion regarding an entity that is listed or proposed to be listed on a stock exchange recognized by the Board, or a security, that is listed or proposed to be listed on a stock exchange recognized by the Board, about its ESG profile or characteristics or exposure to ESG, governance risk, social risk, climatic or environmental risks or impact on society, climate and the environment, that are issued using a defined ranking system of rating categories, whether or not these are explicitly labelled as ‘ESG ratings⁸³.’”</p>
<p>European Commission’s Regulatory Framework Proposal</p>	<p>“An opinion, a score or a combination of both, regarding an entity, a financial instrument, a financial product, or an undertaking’s ESG profile or characteristics or exposure to ESG risks or the impact on people, society and the environment, that are based on an established methodology and defined ranking system of rating categories and that are provided to third parties, irrespective of whether such ESG rating is explicitly labelled as ‘rating’ or ‘ESG score⁸⁴.’”</p>

81 IOSCO, “ESG Ratings and Data Products Providers Final Report,” p. 10.

82 HM Treasury, “Future regulatory regime for Environmental, Social, and Governance (ESG) ratings providers Consultation,” p. 15

83 SEBI, “Consultation Paper on Regulatory Framework for ESG Rating Providers (ERPs) in Securities Market,” p. 10-11.

84 European Commission, “Proposal for a Regulation of the European Parliament and of the Council on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities,” p. 21.

Net-zero portfolio alignment metrics

The definitions on ESG ratings and data products put forward by policymakers leaves room for interpretation on whether E, S, or G specific products, such as net-zero portfolio alignment metrics, are included in the scope of regulation or code of conduct. In the interviews conducted by CDP, and during the Roundtable event in March 2023, policymakers and providers expressed their views that regulations on ESG ratings and data products would also contemplate net-zero metrics. Thus far, no specific mention or guideline on how to estimate these metrics have been introduced by policymakers thus far. However, two modest developments towards these metrics are worth highlighting.

In its disclosure requirements in Annex III, the European Commission mentions that ESG ratings providers should disclose “information on whether and how the methodologies are based on scientific evidence.” This is a fundamental step for investors, rated entities, and policymakers to comprehend whether net-zero portfolio alignment metrics are indeed supporting the transition to a net-zero, nature-positive world or being used for greenwashing schemes.

SEBI’s regulatory framework does not touch upon net-zero portfolio alignment metrics either, but it advises providers to offer an *ESG transition/Parivartan score*, which would measure “the velocity of and investments in making the transition to net-zero goals/improving ESG risk management.

3.3.3. Territorial scope

As shown in Table 4, thus far, policy initiatives have defined their territorial scope based on one of the following three approaches:

- ▼ The location of the provider of the ESG rating (and data product).
- ▼ The location of the user of the ESG rating (and data product).
- ▼ Participation in the market the regulation addresses, whether as user or provider.

Similar to definitions, if regulators disagree on the territorial scope of their interventions, market confusion and compliance complexities may be posed to users and providers of ESG ratings and data products. More worrisome, however, may be if these regulations contradict with one another. For example, should India’s regulation pursue a territorial scope similar to the UK’s, which is based on the location of the user, ESG ratings providers issuing global ratings may have to adjust their methodologies to include the metrics required by SEBI, as discussed in the next section.

Table 4. Territorial scope of policy initiatives on ESG ratings and data products

IOSCO’s Final Report	Not applicable
Japan’s FSA Code of Conduct	“An entity, participating in financial markets in Japan or providing services directly to such participants, that provides ESG evaluations and data services as part of its business, and as a service that would contribute to market participants’ investment decisions ⁸⁵ .”
HM Treasury Consultation	“Direct provision of ratings to users in the UK, by both UK firms and overseas firms ⁸⁶ .”
SEBI’s Regulatory Framework	Does not specify
European Commission’s Regulatory Framework Proposal	“ESG ratings issued by ESG rating providers operating in the Union that are disclosed publicly or that are distributed to regulated financial undertakings in the Union, undertakings that fall under the scope of Directive 2013/34/EU of the European Parliament and of the Council, or Union or Member States public authorities ⁸⁷ .”

3.3.4. Transparency of methodologies of ESG ratings and data products

Whether through public consultations, official statements, or regulatory proposals, every jurisdiction engaged in the space of ESG ratings and data products discusses the lack of transparency around these tools’ methodologies. The table below compares the different aspects regulators are recommending or requiring providers to disclose to address this shortcoming. It indicates a significant level of alignment between the requirements posed by IOSCO, Japan’s FSA, and the European Commission (EC). It also demonstrates that both SEBI and EC include a requirement beyond IOSCO’s recommendations, which

85 Financial Services Agency, “The Code of Conduct for ESG Evaluation and Data Providers,” p. 11.

86 HM Treasury, “Future regulatory regime for Environmental, Social, and Governance (ESG) ratings providers Consultation,” p. 21.

87 European Commission, “Proposal for a Regulation of the European Parliament and of the Council on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities,” p. 20.

focuses on the materiality aspect of the assessment. The European Commission’s requirements also go beyond what other regulators have asked, as it demands information on the scope of the rating, the use of artificial intelligence, and whether and how the methodologies are science-based. A final point worth mentioning is that HM Treasury’s consultation does not cover any disclosure requirements on transparency of methodologies.

Table 5. Comparison of disclosure requirements on ESG ratings and data products methodologies across jurisdictions

Main topics	IOSCO	JFSA	HMT	SEBI	EC
Purpose	X	X		X	X
Materiality				X	X
Criteria	X	X		X	X
Weights	X	X		X	X
Key indicators	X	X		X	X
Absolute or relative values					X
Timing of data	X	X			
Sources of data	X	X			X
Scope of entities assessed	X	X			
Time horizon of assessment	X	X			X
Use of industry averages, estimations, or other methodologies	X	X			X
Updates to the methodology	X	X		X	X
Frequency of data updates					X
Whether and how methodologies are based on scientific evidence					X
Rating scope (aggregated or specific E, S, or G)					X
Use of artificial intelligence in data collection or rating/scoring process					X
Limitations in data sources					X

Core metrics for ESG ratings methodologies

SEBI's proposed regulatory framework aims to establish a set of core metrics ESG ratings providers should incorporate in their assessment. According to SEBI's consultation paper, this set of 14 datapoints covering environmental, social, and governance topics should be common across different ESG ratings and should be based on assured data⁸⁸. Moreover, the regulator leaves to the discretion of providers the possibility to include additional data points in their ESG ratings.

SEBI's regulatory framework may be the first to outline which datapoints should be included in an ESG rating and how they should be estimated. While this initiative may be a step towards establishing a common baseline for ESG ratings methodologies and their subsequent output, it also reflects the complexity and profound need to pursue a global regulatory alignment, as ESG ratings often contemplate entities located in multiple jurisdictions.

3.3.5. Management of conflicts of interest

Management of conflicts of interest is a transversal topic across policy initiatives. Since IOSCO's report in 2021, this has been a pillar in the discussions around regulating ESG ratings and data products. Codes of conduct and regulatory frameworks aim to address potential conflicts of interest. As shown in the table below, IOSCO, JFSA, SEBI, and the European Commission introduce general requirements on how to identify and disclose potential conflicts of interest. They also require ESG ratings providers to develop and disclose policies to avoid and mitigate conflicts of interests. In addition, regulators have also introduced requirements on business structures to address this topic. Japan's code of conduct recommends the creation of a firewall between sales and evaluation division, while SEBI and the EC take a further step by prohibiting ESG ratings providers to engage in certain activities, such as consulting. Additional requirements on human resources, reporting lines, and compensation for employees have been introduced across all policy initiatives. HM Treasury's consultation does not touch on requirements to manage conflicts of interest, even though it mentions IOSCO's approach towards it.

⁸⁸ SEBI, "Consultation Paper on Regulatory Framework for ESG Rating Providers (ERPs) in Securities Market," (2023): 1-47, https://www.sebi.gov.in/reports-and-statistics/reports/feb-2023/consultation-paper-on-regulatory-framework-for-esg-rating-providers-erps-in-securities-market_68337.html.

Table 6. Comparison across policy initiatives on management of conflicts of interest requirements

	IOSCO	JFSA	HMT	SEBI	EC
General requirements					
Identify potential conflicts of interest	X	X		X	X
Develop and disclose policies to avoid and mitigate conflicts of interest	X	X		X	X
Disclose potential conflicts of interest and measures to mitigate them	X	X		X	X
Requirements on business structure					
Separation of business and activities				X	X
Establishing firewall between sales and evaluation divisions		X			
Taking steps to help ensure ESG ratings and data products would not be affected by existence of or potential for a business relationship between providers and rated entities	X			X	
Transparency requirements on pricing					X
Requirements for employees					
Steps to prevent employees from engaging in securities or derivatives transactions	X	X			X
Develop work and compensation structure for employees	X	X			
Specific requirements for rating analysts				X	X
Ensuring compensation and performance do not create conflicts of interest	X	X		X	X

Recommendations

4

The shortcomings discussed in Chapter 2 as well as the limitations reviewed in Section 3.3 indicate that there is room for improvement and further policymaking on the use and provision of ESG ratings and data products. This chapter provides a set of recommendations for policymakers and financial markets regulators.

4.1. Recommendations to address ex-ante challenges

Adopt mandatory disclosure requirements based on harmonized and interoperable corporate sustainability disclosure standards.

Making disclosure mandatory should address the data availability, while the use of harmonized and interoperable standards would address the issue of data comparability. Therefore:

- ▼ Jurisdictions should continue moving towards mandatory disclosure regimes. This would allow improvements in the availability of ESG data, as well as quality, where external assurance or enforcement mechanisms are in place. CDP has identified additional criteria for high quality mandatory disclosure policies that further strengthen data availability and quality⁸⁹.
- ▼ Policymakers should support the use of standards to strengthen the quality and comparability of ESG Data. To that end, it is crucial that regional standards, if developed, build on an internationally agreed global baseline and be interoperable integrated with the most ambitious international disclosure frameworks and standards, such as the ones provided by the ISSB, the TNFD and GRI.

4.2. Recommendations to address ex-post challenges

Addressing fragmentation across policy initiatives

To avoid fragmentation in the regulatory architecture of ESG ratings and data products, as well as to ensure fine compliance from providers and users operating globally.

Adopt common baseline of definitions

- ▼ Regulators should pursue a common baseline to define ESG ratings and data products. IOSCO's role and steer is welcomed in this objective by using its definitions as a starting point to engage regulators in this discussion.
- ▼ Regulators should clarify and agree on whether such definitions include or exclude E, S, or G-specific ratings, as well as whether they consider both opinions and scores.
- ▼ Regulators should also agree whether their definitions of ESG ratings contemplate all types of rated entities, or mainly companies planning or already listed in stock exchanges.

⁸⁹ CDP, "Shaping High-Quality Mandatory Disclosure," (2021): 1-14, https://cdn.cdp.net/cdp-production/cms/policy_briefings/documents/000/005/863/original/TCFD_disclosure_r2port_2021_FINAL.pdf?1631608521 Please note the Principles of High-Quality Mandatory Disclosure will be updated by CDP in September 2023 and will be found at <https://www.cdp.net/en/policy/program-areas/mandatory-environmental-disclosure>.

Ensure territorial scope does not pose conflicting requirements

- ▼ Regulatory frameworks should adopt similar approaches towards their territorial scope to avoid market confusion and contradiction across policy initiatives. Should regulation cover different territorial scopes, regulators should ensure that no conflicting requirements are imposed on providers and users of ESG ratings and data products.

Foster transparency of methodologies of ESG ratings and data products

Given the role ESG ratings and data products play on investment decisions, promoting transparency of methodologies is key to ensure capital is being allocated effectively and towards commensurating global environmental agendas, such as the Paris Agreement, the 2030 Agenda on Sustainable Development and the Kunming-Montreal Global Biodiversity Framework. Promoting transparency is also crucial to prevent greenwashing schemes and product mis-selling in this market.

Therefore:

- ▼ Regulators should be more specific on what type and level of information providers need to disclose. To avoid fragmentation across policy initiatives, regulators could adopt the procedure outlined in IOSCO's Recommendation 5 as a common baseline and minimum requirement for disclosure.

- ▼ Regulators should require ESG ratings and data products providers to include information about the materiality approach adopted in their assessments and encourage market players to focus on those that cover both sustainability-related financial information and impact on people and planet.
- ▼ To build on IOSCO's Recommendation 5, regulators should consult with providers and investors on the various types and formats of information to be disclosed and in which formats. In doing so, regulators may identify a sound balance between quantity and quality of information disclosed.
- ▼ In finding a balance between quantity and quality of information disclosed, policymakers should also provide simple guidelines on the format of transparency of methodologies. This would allow users to easily access the necessary information to decide on whether to use certain evaluation tools. It would also help providers become more assertive on the content and format of information that needs to be transparent.
- ▼ These guidelines could come after consultation with users and providers of ESG ratings and data products to ensure accessibility and comprehension of the information.

Ensure innovative products such as Net-zero portfolio alignment products are in scope

The definitions thus far employed for ESG ratings and data providers are broad enough to encompass assessments on net-zero alignment and on transition, physical, and nature-related risks. However, as evaluation tools evolve with innovative approaches, it is necessary to ensure their development is aligned with the best available science.

Therefore:

- ▼ Regulators should consider including a specific mention to these products in codes of conduct and regulatory frameworks.
- ▼ Regulators should require providers to disclose information on the scientific basis of their methodologies.
- ▼ Regulators should encourage that the evaluation tools being developed on this topic are science-based and aligned with global environmental agendas, including but not limited to the Paris Agreement, 2030 Agenda on Sustainable Development, and the Kunming-Montreal Global Biodiversity Framework.

Ensure good governance to manage and solve possible conflicts of interest

- ▼ Regulators should continue implementing requirements for providers to identify, disclose, avoid, and mitigate conflicts of interest.
- ▼ IOSCO's recommendations 3 and 4 should serve as the baseline for requirements on management of conflicts of interest.

Appendices

5

Appendix A

Summary of consultations on ESG ratings and data products and their outcome across different jurisdictions.

Level	Entity	Sub-entity	Link to consultation	Date of consultation	Main topics	Outcome of consultation	Link to publication	Date of publication
International	International Organization of Securities Commissions (IOSCO)	N/A	IOSCO Consultation Report CR02/21	July - September 2021	Transparency, disclosing methodologies, encouraging jurisdictions to implement regulations, conflict of interest, communication and data collection process between providers and disclosing entities	Final report with a set of recommendations on the topics of the consultation	Final Report on ESG Ratings and Data Products Providers	November 2021
						IOSCO good sustainable finance practices for financial markets voluntary standard setting bodies and industry associations	Call for Action	November 2022
National	United Kingdom	Financial Conduct Authority (FCA)	Consultation Paper (CP21/18)	June - September 2021	Challenges and potential harms, guidance for users, closer regulatory oversight and its potential shape	Final report with summary of responses and key trends identified across respondents	Feedback Statement to CP21/18	June 2022
						Announcement of a Working Group to develop a Code of Conduct for ESG ratings and data products providers	Working group to develop a Code of Conduct	November 2022
		HM Treasury	Future regulatory regime for Environmental, Social, and Governance (ESG) ratings providers	March – June 2023	Defining ESG ratings, service and territorial scope, proportionality, transparency and management of conflicts of interest	To be announced		
National	India	Securities and Exchange Board of India (SEBI)	Consultation Report on ESG Rating Providers for Securities Market	January - March 2022	Scope and need for regulation; accrediting providers; standardization of symbols and scales for ESG rating; transparency; governance and conflict of interest prevention	Publication of regulatory framework for public consultation in 2023	SEBI Board Meeting Minutes	

Level	Entity	Sub-entity	Link to consultation	Date of consultation	Main topics	Outcome of consultation	Link to publication	Date of publication
National	India	Securities and Exchange Board of India (SEBI)	Consultation Paper on ESG Disclosures, Ratings and Investing	February – March 2023	<i>Inter alia</i> , ESG parameters for ESG ratings and data products, need for a “core ESG rating”, assurance of indicators	Establishment of a regulatory framework for ESG Rating Providers by introducing a new chapter in the SEBI Credit Rating Agencies Regulation	SEBI Board Meeting Minutes	February 2023
			Consultation Paper on Regulatory Framework for ESG Ratings Providers (ERPs) in Securities Market	February – March 2023	Regulatory framework amending the Credit Rating Agencies Regulation			March 2023
Regional	European Union	European Securities and Markets Authority (ESMA)	Call for Evidence on ESG Ratings	February - March 2022	Focus on size, structure, resourcing, revenues and types of products offered by providers, as well as views and experiences from users	Letter to the European Commission with outcome of Call for Evidence, followed by a Target Consultation promoted by the EC	Outcome of Call for Evidence on Market Characteristics of ESG Rating and Data Providers in the EU	June 2022
		European Commission	Targeted Consultation on the Functioning of the ESG Rating Markets	April - June 2022	Use of ratings by investors and asset managers; functioning of the market and its practices; possibility and costs of regulatory intervention in the market; incorporation of ESG factors in credit ratings and interventions in such market	Summary report with responses published and insights to be incorporated in further initiatives by the EC	Feedback statement: Functioning of the ESG ratings market in the European Union and on the consideration of ESG factors in credit ratings Proposal for a Regulation on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities	August 2022 June 2023
National	Japan	Financial Services Agency (FSA)	Draft Code of Conduct for ESG Evaluation and Data Providers	July - September 2022	Quality of ESG ratings and data; human resources development; conflict of interests; transparency; confidentiality; communications between providers and disclosing/ rated entities	Publication of Code of Conduct and invitation for entities to endorse it	Code of Conduct for ESG Evaluation and Data Providers	December 2022
National	Singapore	Monetary Authority of Singapore	Draft Code of Conduct for ESG Ratings and Data Providers	December 2022 – January 2023	Definitions of ESG ratings and data products, transparency of methodologies, management of conflicts of interest	To be announced	-	-

Appendix B

Among the interviewees

62% providers of ESG ratings and data products

14% users

24% policymakers and regulators

In January and February 2023, CDP conducted 21 interviews with policymakers (including regulators), users, and providers of ESG ratings and data products. The objective was to complement the findings of this research by gathering insights on a set of topics: challenges and innovations of the market, ESG data, shortcomings of methodologies, and perceptions and expectations for policy developments.

Interviews were conducted with a semi-structured approach, in which an agreed and common set of questions were posed for all interviewees, but with some flexibility for specific topics to be further explored as the discussion developed. The questionnaires are included below.

Among the interviewees, 62% were providers of ESG ratings and data products, 14% were users, and 24% were policymakers and regulators.



Questionnaire – ESG ratings and data products providers

Introduction

1. ESG ratings, net-zero scores, and data products have grown significantly in the past few years. How do you foresee the future of these products? In other words, what developments do you see taking place in the upcoming years?
2. What are the main challenges you encounter as a service provider?
3. What are the main opportunities and innovations you have identified as a provider?
4. How are you envisioning the rise of transition risk and net-zero alignment assessments?

ESG data

5. We are observing a convergence of sustainability standards. What impact do you believe this will have on ESG and climate-related data?
6. There has been a rise in the number of jurisdictions developing taxonomies. What impact do you believe this will have on ESG and climate-related data?
7. What challenges or barriers do you identify regarding ESG and climate-related data?
8. How could these challenges be overcome?

Methodologies

9. Should there be some common denominator (ie a set of core metrics or indicators) across methodologies to ensure that comparison becomes more feasible across ESG products?
 - a. If yes, which metrics should be adopted?
 - b. If not, why not?
10. Should methodologies be science-based (aligned with a 1.5C pathway)? Why?

Regulations

11. We have discussed the challenges surrounding ESG and climate-related data. Is there a role for policy makers to play?
 - a. If so, which one?
 - b. If not, why?
12. Should ESG ratings and data products providers be regulated? Why?
 - a. If so, which entities should fall within the regulatory scope?
 - b. If so, what format of regulation would be appropriate?
13. Thus far, regulatory debates (such as IOSCO's recommendations and Japan's Code of Conduct) have focused primarily on issues of transparency, managing conflicts of interest, systems and controls, and good governance.
 - a. Do you agree these are the most pressing issues to be addressed?
 - b. Are there any limitations?
 - c. Any examples of best practices to be followed?
14. Regarding transparency, do you believe the level of disclosure requested from regulations thus far is sufficient?
15. Should there be specific guidelines for regulations on transition risk and net-zero alignment assessments?

Questionnaire – ESG ratings and data products policymakers

Introduction

1. ESG ratings, net-zero scores, and data products have grown significantly in the past few years. How do you foresee the future of these products? In other words, what developments do you see taking place in the upcoming years?
2. What are the main challenges you encounter as a policymaker regarding ESG ratings, net-zero scores, and data products?
3. What are the main opportunities and innovations you have identified?
4. Can ESG ratings and data products contribute to policymaking? If so, how?
5. To what extent do you think ESG ratings and data products providers influence the quality of implementation of their policies (ie environmental regulations)?

ESG data

6. We are observing a convergence of sustainability standards. What impact do you believe this will have on ESG and climate-related data?
7. There has been a rise in the number of jurisdictions developing taxonomies. What impact do you believe this will have on ESG and climate-related data?
8. What challenges or barriers do you identify regarding ESG and climate-related data?
9. How could these challenges be overcome?

Methodologies

10. Should there be some common denominator (ie a set of core metrics or indicators) across methodologies to ensure that comparison becomes more feasible across ESG and net-zero products?
 - a. If yes, which metrics should be adopted?
 - b. If not, why not?
11. Should methodologies be science-based (aligned with a 1.5C pathway)? Why?

Regulations

12. We have discussed the challenges surrounding ESG and climate-related data. Is there a role for policy makers to play?
 - a. If so, which one?
 - b. If not, why?
13. Which regulatory tools/instruments do you see as most appropriate to address ESG ratings and data product providers?
14. Thus far, regulatory frameworks (such as IOSCO's recommendations and Japan's Code of Conduct) have focused primarily on issues of transparency, managing conflicts of interest, systems and controls, and good governance.
 - a. Do you agree these are the most pressing issues to be addressed?
 - b. Are there any limitations?
 - c. Any examples of best practices to be followed?
15. Regarding transparency, do you believe the level of disclosure requested from regulations thus far is sufficient?

Questionnaire – ESG ratings and data products users

Introduction

1. How do you use ESG ratings, net-zero scores, and data products? (if not mentioned: what specific parts of your business uses ESG ratings and data products)
2. What criteria did you consider when selecting which products to use?
3. ESG ratings, net-zero scores, and data products have grown significantly in the past few years. How do you foresee the future of these products? In other words, what developments do you see taking place in the upcoming years?
4. What are the main challenges you encounter as a user regarding ESG ratings, net-zero scores, and data products?
5. What are the main opportunities and innovations you have identified?

ESG data

6. We are observing a convergence of sustainability standards. What impact do you believe this will have on ESG and climate-related data?
7. There has been a rise in the number of jurisdictions developing taxonomies. What impact do you believe this will have on ESG and climate-related data?
8. What challenges or barriers do you identify regarding ESG and climate-related data?
9. How could these challenges be overcome?

Methodologies

10. As a user of ESG ratings and data products, how do you perceive the divergence across their assessments?
11. Do you identify conflicting results from different assessments? Why do you think this difference is there? Which ones do you go to when you select the provider?

12. Should there be some common denominator (ie a set of core metrics or indicators) across methodologies to ensure that comparison becomes more feasible across ESG and net-zero products?
 - a. If yes, which metrics should be adopted?
 - b. If not, why not?
13. Should methodologies be science-based (aligned with a 1.5C pathway)? Why?

Regulations

14. We have discussed the challenges surrounding ESG and climate-related data. Is there a role for policy makers to play?
 - a. If so, which one?
 - b. If not, why?
15. Which regulatory tools/instruments do you see as most appropriate to address ESG ratings and data product providers?
16. Thus far, regulatory frameworks (such as IOSCO's recommendations and Japan's Code of Conduct) have focused primarily on issues of transparency, managing conflicts of interest, systems and controls, and good governance.
 - a. Do you agree these are the most pressing issues to be addressed?
 - b. Are there any limitations?
 - c. Any examples of best practices to be followed?
17. Regarding transparency, do you believe the level of disclosure requested from regulations thus far is sufficient?

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