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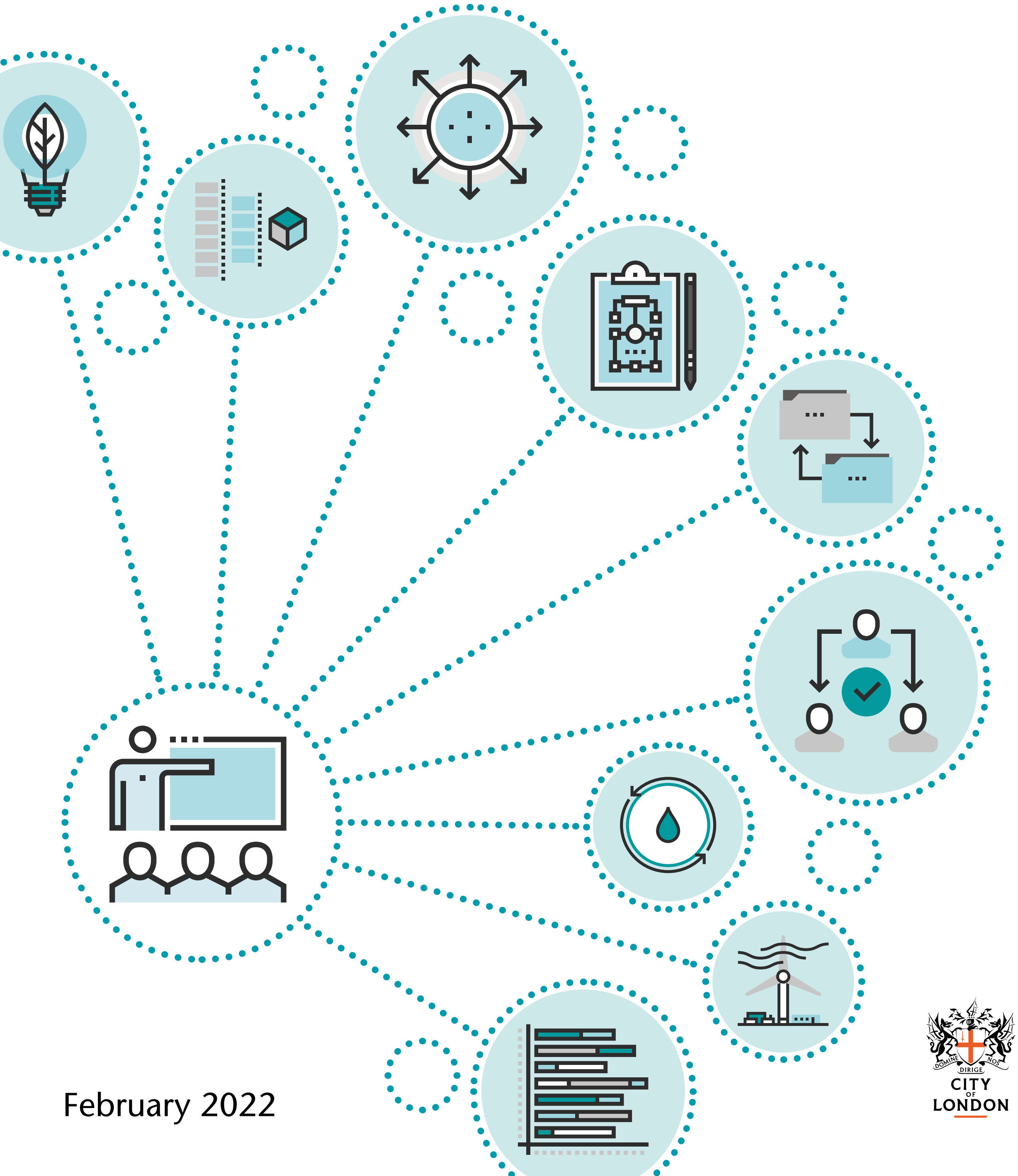
ESG Ratings and ESG Data in Financial Services – A view from practitioners

A joint report by Accenture UK and the International Regulatory Strategy Group (IRSG)



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CITY OF LONDON

TheCityUK

About the IRSG

The International Regulatory Strategy Group (IRSG) is a practitioner-led group comprising senior leaders from across the UK-based financial and related professional services industry. It is one of the leading cross-sectoral groups in Europe for the industry to discuss and act upon regulatory developments. With an overall goal of promoting sustainable economic growth, the IRSG seeks to identify opportunities for engagement with governments, regulators and European and international institutions to advocate for an international framework that will facilitate open and competitive capital markets globally. Its role includes identifying strategic level issues where a cross-sectoral position can add value to existing views.

About Accenture

Accenture is a global professional services company with leading capabilities in digital, cloud and security. Combining unmatched experience and specialized skills across more than 40 industries, we offer Strategy and Consulting, Interactive, Technology and Operations services – all powered by the world's largest network of Advanced Technology and Intelligent Operations centers. Our 674,000 people deliver on the promise of technology and human ingenuity every day, serving clients in more than 120 countries. We embrace the power of change to create value and shared success for our clients, people, shareholders, partners and communities.
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FOREWORD BY IRSG COUNCIL CHAIR

ESG and sustainability are becoming increasingly central to investment decisions around the world. COP26 in particular provided a big boost to sustainable finance and the shift in capital toward sustainable activities. ESG ratings are a vital component of this capital re-allocation so both demand for and reliance on these products is only expected to grow. It is therefore crucial that market users and investors have confidence in ESG ratings when making investment decisions.

However, with the ESG Ratings market still in its infancy and demand increasing at a rapid rate, it is unsurprising that significant challenges are emerging. These include transparency of methodology, ratings varying widely between different providers, clarity of purpose behind different products, availability of data disclosure, and potential conduct risks. As demand is set only to accelerate, it is paramount that these challenges are addressed to ensure the market is fit for purpose and can properly support market practitioners in assessing the risks and opportunities of potential ESG investments.

It is in response to this need that the IRSG, in partnership with Accenture, has undertaken this work. This report explores the challenges the market faces in its present state and offers recommendations of steps industry, regulators and policymakers can take to futureproof the integrity and efficiency of the ESG Ratings Market.

Alongside this, ESG Ratings are increasingly regarded as integral to progressing the wider ESG agenda which is leading to greater scrutiny and political attention. The industry not only needs to show leadership in developing an effective marketplace, but it also needs to be reinforced by a proportionate regulatory system. In support of this, we have identified some clear principles and priorities for future regulation in this report to avoid any rush to adopt excessive and potentially prescriptive regulatory solutions.

In addition, the IRSG strongly argues the need to avoid major jurisdictions adopting different approaches and supports global efforts to improve ESG disclosures — such as the development of the International Sustainability Reporting Standards (ISSB).

This report has been made possible by the insights we have received from across the industry and key stakeholders. I would like to thank Peter Beardshaw and Kuangyi Wei at Accenture, and Mark Twigg and Sarah Bosworth at Cicero for their work with the IRSG in producing this timely contribution on an important issue. We hope that this work proves useful for policymakers and look forward to continuing to engage on debates on ESG ratings.

Kay Swinburne
IRSG Council Chair

"ESG Ratings are increasingly regarded as integral to progressing the wider ESG agenda which is leading to greater scrutiny and political attention. The industry not only needs to show leadership in developing an effective marketplace, but it also needs to be reinforced by a proportionate regulatory system. "

FOREWORD BY ACCENTURE

This report confirms what many of us already recognise: that the ESG ratings market, in its current nascent state, still has a long journey if it's to fully assist issuers and investors in embedding ESG factors into their corporate strategies and decision-making.

The case for reform was made by research findings in 2020 that revealed a low correlation for ESG ratings (as low as 0.38) compared to credit ratings (as high as 0.99). Given the global push to integrate ESG into investment decision-making, this gap is hugely significant. A low correlation has three consequences, highlighted in this report. First, ESG performance is less likely to be reflected in companies' share and bond prices. Second, companies get mixed signals from ESG ratings agencies about what steps to take to improve their ESG rating; and third, Financial Institutions struggle to accurately reflect the ESG profile into their disclosures, pricing and capital strategies. In short, the potential to 'green' corporate behaviours and financial markets risks being eroded.

Because of the huge variations in ratings methodologies, assessments are open to interpretation. Much of the data used is self-reported from companies, or proxy data that isn't verified or audited. There are also major variations in the frameworks for scoring and the relative weightings that ratings agencies allocate to different factors. What is clear from this report is that greater standardisation and harmonisation are required across the market – both through market-led initiatives and fresh regulations – to help improve transparency and boost market confidence.

For businesses, the use of inconsistent and uncontrolled ESG data sources brings clear risks. As a result, leaving the sourcing of ESG data down to individual functions is not a viable long-term strategy – and centralised ESG data management approach will play a critical role in enabling organisations to future-proof themselves. Banks and asset managers will be required to invest in innovative data management capabilities and internal expertise to adapt and thrive in a fast-changing landscape. At the same time, centralising data will help to improve auditability and enable more rapid adoption of new data standards and controls. It will also assist in cultivating a culture of embedding sustainability into business decision-making. And that, ultimately, is what we should all be working to achieve.

Peter Beardshaw
Accenture's European & UK Sustainability Services Lead for Financial Services

"The use of inconsistent and uncontrolled ESG data sources brings clear risks. As a result, leaving the sourcing of ESG data down to individual functions is not a viable long-term strategy – and centralised ESG data management approach will play a critical role in enabling organisations to future-proof themselves.

EXECUTIVE SUMMARY

Our key findings

By the end of 2021, investors with over $120 trillion in combined assets had signed an agreement to integrate ESG information into their investment decisions.[1] It is within this context that ESG ratings provide an increasingly popular and powerful tool in helping market practitioners to assess ESG or sustainability risks and opportunities. While ESG ratings provide just one interpretation of the many sources of ESG data available to portfolio managers, the growing significance of ESG ratings products across both equity and fixed income (debt) markets cannot be understated.

With increased influence, comes increased scrutiny of ESG Ratings across user groups. For issuers, a firm's ESG rating is becoming an important element of its profile for investment decision-making. For investors, they are increasingly using ESG Ratings to inform investment decisions on capital allocation. Meanwhile regulators need to be confident that ESG Ratings are fit for purpose to influence the decisions of both institutional and retail investments. As the usage of ESG ratings expands, all stakeholders need confidence that this nascent, high-growth market operates efficiently and with a high degree of market integrity.

As the usage of ESG ratings expands, all stakeholders need confidence that this nascent, high-growth market operates efficiently and with a high degree of market integrity.

In its current state, the ESG ratings market is experiencing several challenges. Firstly, the need for greater transparency from ESG rating providers about what the objective of a rating is, the methodology used, and the ESG data that the rating relies on. Once this is established, there follows underlying problems with the availability, quality, and coverage of ESG data that is currently being reported. As previously demonstrated in the IRSG report on 'Accelerating the S in ESG', it is evident that social issues are not as tangible as environmental or governance issues, consequently there is less mature data in this area.[2] Where coverage is incomplete, making confident risk assessments based on an ESG Rating is harder and more costly to undertake.

Then there is also the broader discussion around regulating the ESG ratings entities or their activities. In its recent consultation paper (CP21/18) the FCA requested views on whether there is a case either to encourage ESG data and rating providers to adopt a voluntary Best Practice Code, or for the FCA to engage with the Treasury to encourage bringing ESG data and rating providers' activities inside the FCA's regulatory perimeter. The IRSG believes that regulation of

1 UNPRI, 'PRI Growth 2009-2021', 2021

2 IRSG and KPMG, 'Accelerating the S in ESG – a roadmap for global progress on social standards', June 2021

ESG ratings is now desirable, to provide more transparency around the basis for ESG ratings and mitigate against potential conduct risks. This should include clarity of definitions and understanding, with a clear distinction to be made between data provision and rating provision, with the latter benefiting from an opinion and analysis, beyond the raw data disclosure output.

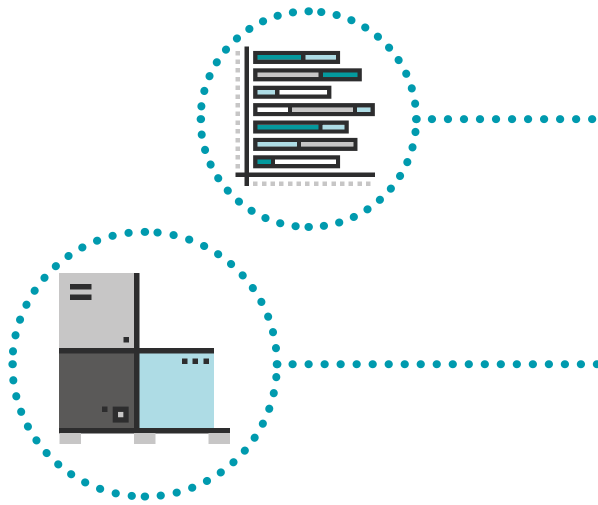
We are already seeing ESG ratings become more integrated into business decision-making for financial institutions on both the buy side and the sell side. The need to understand and to connect customers, counterparties and the ESG profile of the firm's lending and investment portfolios has never been greater. Developing more centralised data and technology platforms is key to transform ESG data into user-friendly deliverables, with the most value from data achieved when made more accessible. This calls on all issuer firms to establish the right data behaviour and accountabilities at the outset and develop their technology architecture anticipating future upticks in ESG data volumes, complexity, and fluidity.

Over time, efforts to improve ESG disclosures – such as the development of the International Sustainability Reporting Standards, in conjunction with coordinated regional initiatives and implementations – should lead to systematic improvements in underlying ESG data that is available to the market and supports a higher level of consistency and robustness in ESG ratings products. The need to improve transparency around how companies consider climate risks generally has already resulted in major initiatives to improve climate risk disclosures and reporting at the corporate level – with COP26 seeing the (previously voluntary) 11 recommendations made by the Taskforce on Climate-related Financial Disclosures (TCFD) become mandatory in the UK for large companies from 2022, and the creation of the International Sustainability Standards Board (ISSB) to become the global standard-setter for sustainability disclosure in the future. These initiatives have been highly commended by the IRSG in assisting the investment community to better understand the climate risks associated with individual companies.

Fulfilling the ESG promise requires long-term, seismic shifts across industries. To make ESG data pay dividends in the long run, financial institutions– as well as their regulators – need to get on the front foot and consider their sustainability and data agendas in tandem. Greater clarity in ESG ratings is reliant on creating greater clarity in the ESG data inputs to begin with, coupled with the increased transparency from ESG raters on their methodology.

It is in recognition of both the growing importance to the sector of ESG ratings and of the need for appropriate public policy intervention that the IRSG embarked on this piece of work. In undertaking this report, the IRSG commissioned Accenture and Cicero/AMO to partner in the research and drafting of this report. A full methodology can be found in the Appendix.

The IRSG believes that regulation of ESG ratings is now desirable, to provide more transparency around the basis for ESG ratings and mitigate against potential conduct risks.

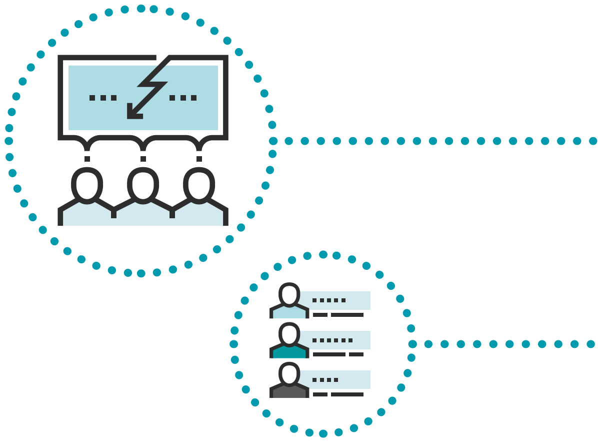


KEY RECOMMENDATIONS

The following considerations provide some guiding principles which should underpin how regulators and market practitioners move the debate forward over the next couple of years.

1 – Consistency

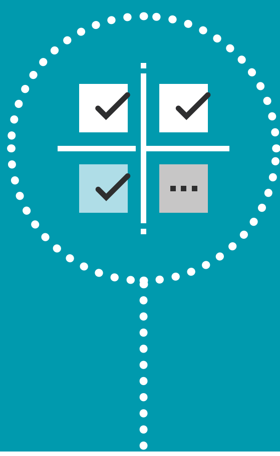
The global nature of this market should be reflected by continuing to support the work of IOSCO to develop global standards which ensure, as far as possible, that we develop consistent regulatory approaches across the key jurisdictions. The Balkanisation of conduct rules across borders will hamper the development of the market, duplicate compliance costs, and potentially prevent cross-border competition. However, those ratings providers that are able to provide a unified, quality product and methodology on a cross-border basis will in time develop centres of expertise and knowledge, allowing for cross-learnings and faster dispersement of best practice to all areas of the market.



RECOMMENDATIONS

- **For Industry to clarify definitions of terms used in ESG Ratings to improve consistency of understanding. Once established industry, regulators and policy makers to adopt common language when describing the ESG Ratings landscape.**

- **For Industry to continue to widen the scope of ESG Ratings to be applied globally**

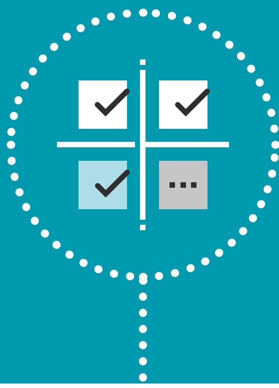


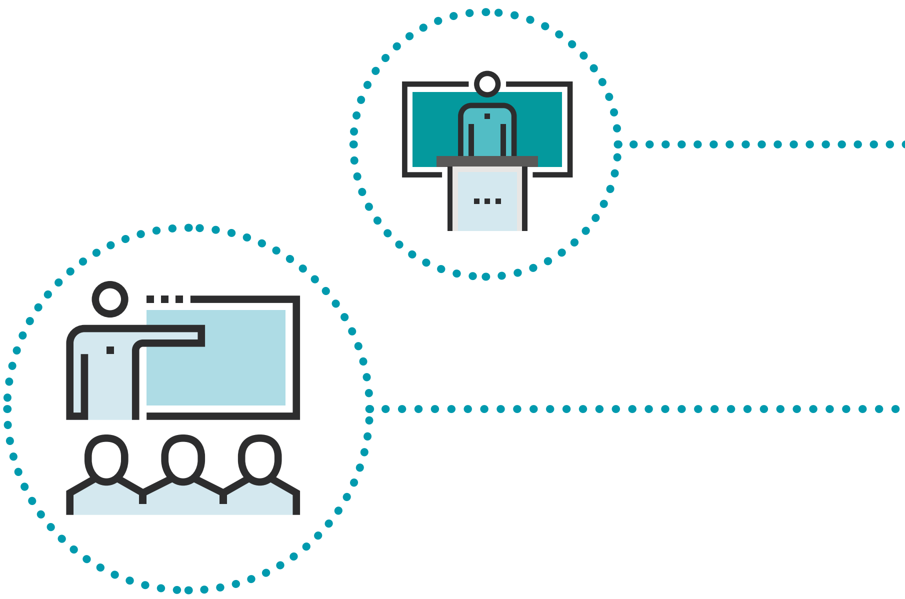
2 – Coordination and Collaboration

The IRSG believes that industry, regulators, and policymakers must all play an active part in the development of the ESG Ratings market. In creating the right balance between protecting investors and encouraging innovative, competitive markets, we need to ensure future regulation is proportionate to the nascent nature of the ESG Ratings market. The industry needs to show leadership in developing an effective marketplace, supported by a proportionate regulatory system. This requires clear principles and priorities, and for future regulation to be established early, so to avoid the danger of rushing to adopt excessive and potentially prescriptive regulatory solutions.

RECOMMENDATIONS

- **For regulators, future regulation of ESG Ratings needs to be proportionate and principle-based in recognition of the nascent nature of the market**
- **For regulators and policymakers, to seek international collaboration and co-ordination in any future regulatory framework – recognising the recent progress made by IOSCO and ISSB**





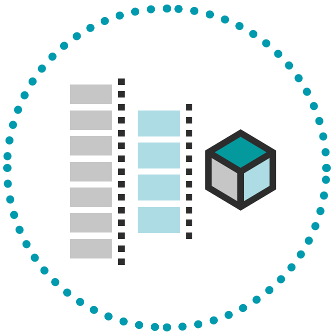
3 – Transparency

IRSG believes that transparency is a central feature in any well-functioning marketplace. This is only more so the case in relation to ESG factors. As such, it is critical that investors can access clear, consistent, and reliable information about the sustainability risks and opportunities associated with their investments. Transparency means different things to different end-users.

In an institutional investor marketplace, there are a suite of areas where ESG ratings agency disclosures can be improved, including on their data inputs and data gathering processes, methodologies, governance, relationship between ESG ratings agencies and issuers, metrics, and objectives of the products. This should be supported by the broader and ongoing efforts to improve ESG disclosure.

RECOMMENDATIONS

- **For industry to establish clear and transparent methodologies that explain the objectives of ESG Rating products**
- **For industry to develop clear marketing practices for ESG Ratings, potentially requiring future regulatory supervision**
- **As the ESG Ratings market matures, for industry to give further consideration of bifurcation or trifurcation of E, S and G factors**



4 – Data standardisation

4.1 - Coverage

Increased efforts are required to improve the quality, consistency, and availability of the underlying data to ensure market confidence in ESG products. There are currently major gaps in data coverage and disclosure, because ESG ratings providers cannot get the relevant data they need from many corporates and sectors as firms are not required to disclose it. This occurs most notably in companies in emerging markets, and in mid- and small-cap companies that are much less likely to produce regular audited accounts compared to large companies, due to less regular auditing, reduced resources, and voluntary proportional requirements. The difficulty in accessing high quality data for these companies has seen the value of ESG ratings called into question, based on poor or missing market data. Some lenders and asset managers have begun to create their own internal platforms outside of the third-party ESG Ratings to fill the missing information gaps. This means financial institutions asking issuers difficult questions about the nature of their business and their potential ESG risk profile when assessing investment decisions. These internal platforms address information gaps within individual banks and asset managers, but not at the overall market level, and lack a consistent input measure for each indicator. It is key to ensure open-source data is available to both incumbent providers and new entrants in ESG ratings. For many firms, this will require increasing investment in technological transformation processes to better capture ESG data at an enterprise-wide level across the organisation.

4.2 – Quality

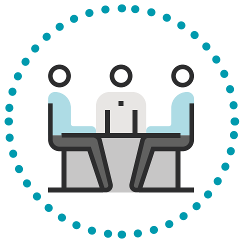
The quality of ESG ratings outputs is only as good as the data inputs. High quality ratings products rely on ESG ratings agencies accessing accurate and reliable company data across a wide range of corporates by size, geography, and sector. Currently, the availability of high-quality data is limited. The IRSG supports global efforts to build on the work of ISSB, SASB, IFRS and EFRAG to improve the accuracy, reliability and frequency of company reported data. Strengthening and centralising the ESG data model that firms use to collect ESG data must be a key strategic priority.

RECOMMENDATIONS

- **For industry to improve data disclosure and gathering, supported by greater alignment in standards by policymakers such as the newly formed ISSB**
- **For industry to strengthen the relationship between firms and ESG Rating providers, to increase trust and validity in ESG Ratings**

5 – Investor protection

Ensuring high standards of market conduct will be necessary to protect all end-users, both institutional and retail, in maintaining market integrity, reputation and trust. Identifying emerging conduct risks and addressing them proactively is vital for all practitioners. IRSG identified three key areas where further attention is required:



5.1 – Clarity needed about ESG risk vs. ESG impact

Clarity on what different ratings and data products are intended to measure and capture is extremely important and not always clearly articulated. Without clarity and transparency, investors may assume that an ESG rating based on ESG risk is indicative of a company's ESG impact. While ESG risk and sustainability impact can be related, they are different measures that should not be conflated. ESG risk, sometimes referred to as 'materiality', measures the risk that ESG factors pose to the performance of an organisation. ESG impact, often referred to as 'double materiality', measures the environmental and social impact of an organisation. While ESG impacts may present ESG risks, the two measures are not one and the same. It is, therefore, essential that ratings providers offer clarity and transparency on what different ratings and data products are intended to measure.

5.2 – Protecting Retail Investors

Retail investors constitute a small but growing slice of the ESG investment market. Regulators need to pay attention to how ESG ratings products are promoted, particularly in retail markets where end-users will be less aware of what the ratings are measuring or how those ratings should be applied to investment decisions.

5.3 – Conflicts of interest

Ensuring that there is an alignment of interests between ESG ratings and end-users is essential. There was no industry support for the regulation of fee models at this stage. Whichever fee model is used (subscription based versus issuer pays) the industry should address any potential conflicts of interest and put in place clear governance and disclosure arrangements relating to pricing and third-party relationships.

RECOMMENDATIONS

- **For industry, to mitigate the risks of greenwashing through improved transparency into the rating objectives and methodology, to be overseen by regulators and policymakers where required**
- **For industry to mitigate conflicts of interest, or fully disclose where mitigation is not possible, to be overseen by regulators where required**
- **For regulators and policymakers to facilitate the ESG Ratings market to develop organically in terms of payment model, recognising it remains too early to tell which option is preferable**

SECTION 1
DEFINING THE MARKET LANDSCAPE

What role do ESG ratings play in financial markets?

ESG ratings assess the emerging non-financial business risks that are outside the scope of traditional financial analysis. The ratings fill a gap in understanding a firm's wider risk exposure. At an overall level, these products attempt to evaluate a company based on a comparative assessment of their quality, standard or performance on Environmental, Social and Governance issues by evaluating the 'non-financial' aspects of corporate risk.[3] As such, they are designed to help issuers and investors identify and understand the material ESG risks (or opportunities) that a business is exposed to.[4] However, even on the basic point of what ESG ratings attempt to measure, the diffusion in methodologies and considerations can in some instances lead to a lack of market clarity among buy-side investors.

> "Often people understand ESG ratings to be an assessment of how 'good' a company is and the impact that company is having on the world. This isn't the case at all. ESG ratings are focused on risks and opportunities, so how exposed a company is to various factors – similar to a credit rating – and how well it's managing those ESG-related risks and opportunities."
>
> **Guy Rolfe, M&G**

In this report, we'll adopt the definitions used in the recent IOSCO Consultation on ESG Ratings, recognising the need for all industry practitioners to improve the precision in which terminology is used when describing different players within the ESG Ratings space.

3 SustainAbility, 'Rate the Raters Report 2020: Investor Survey and Interview Results', March 2020

4 Simply Sustainable, 'Why ESG ratings matter and how companies use them'

TABLE 1
Glossary of Terms[5]

ESG RATINGS	ESG ratings refer to the broad spectrum of ratings and related products in the sustainable finance area that are marketed as providing an assessment of an entity, or a company's ESG profile or exposure to ESG opportunities or risks.
ESG SCORES	ESG scores result from quantitative analysis, whereas ESG ratings are produced using both quantitative and qualitative models, accompanied by analyst explanation of the ratings.
ESG DATA PRODUCTS	Data products refer to the spectrum of data, including raw data, and related products in the sustainable finance area that are marketed as providing information on an entity, a financial instrument, a product, or a company's ESG profile or exposure to ESG, climatic or environmental risks.
ESG DATA PROVIDERS	ESG data products providers have developed a wide range of products and services in order to meet investors' growing demand for ESG-related information. ESG data products providers estimate or collect raw data from companies' public disclosures or from other publicly available information.
ESG RATING PROVIDERS	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. While ESG data providers and ESG rating providers do not provide the same function, it is often the case that ESG data providers also provide ratings, and vice versa.

For the sake of clarity, the remainder of this report will only refer to ESG ratings. However, IRSG recognises that ESG ratings and ESG scores, while both providing an assessment of ESG exposure, may be calculated using different methods. Therefore, where possible, they should be distinguished. However, the interview process revealed that some within the industry use the terms interchangeably without any consistent difference in meaning. Consequently, it is not straightforward to distinguish between the two. IOSCO suggests that ESG scores sit within ESG ratings:

> **"The term "ESG ratings" can 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."**[6]

5 IOSCO, 'Environmental, Social and Governance (ESG) Ratings and Data Products Providers', July 2021

6 IOSCO, 'Environmental, Social and Governance (ESG) Ratings and Data Products Providers', July 2021

ESG ratings are already becoming more integrated into business decision-making for financial institutions on both the buy- and the sell-side. However, the lack of transparency in the ratings methodologies make it difficult for users to assess why two ESG ratings providers may provide very different ratings of the same issuer.

"ESG ratings companies often have access to the same numbers and information, but they come up with different conclusions in their ratings. Maybe we should be happy that the ESG rating agencies do come up with a different opinion, and it's up to investors to decide which opinion they trust. Companies do take great pride in their scores and investors are interested in the scores. But how they apply those scores is very difficult to tell."

James Laing, Rothschild & Co.

Some analysts suggest that a low correlation is to be expected between one company's ESG ratings from different ratings providers[7]. Ultimately, this is due to a number of different factors, including different data inputs and sources, weightings of ESG criteria, and the difference in analyst opinion on a forward-looking issue.

"The diversity in approaches used in ESG assessments, scores and ratings will by nature lead to diversity in conclusions and opinions for individual issuers. This does not necessarily mean that the underlying assessments are flawed or imperfect. The ESG data and assessment market is still developing rapidly, with a lot of innovation. There are established players, but there are also new start-ups. We think that's healthy, because there's still both a need and an opportunity to develop and mature approaches to some of these very complex issues."

Rahul Ghosh, Moody's

This report finds that one of the most significant barriers to ESG integration is the lack of quality, consistency, and reliability of ESG-related data disclosure and coverage. Improving this will require efforts to address widespread data gaps and stop the vicious cycle of poor data leading to poor quality ratings resulting in poor investor decision-making, and potentially reducing investor confidence. This negative cycle risks distorting cost and availability of capital for issuers, notably small businesses, where the data coverage gaps are currently most widespread.

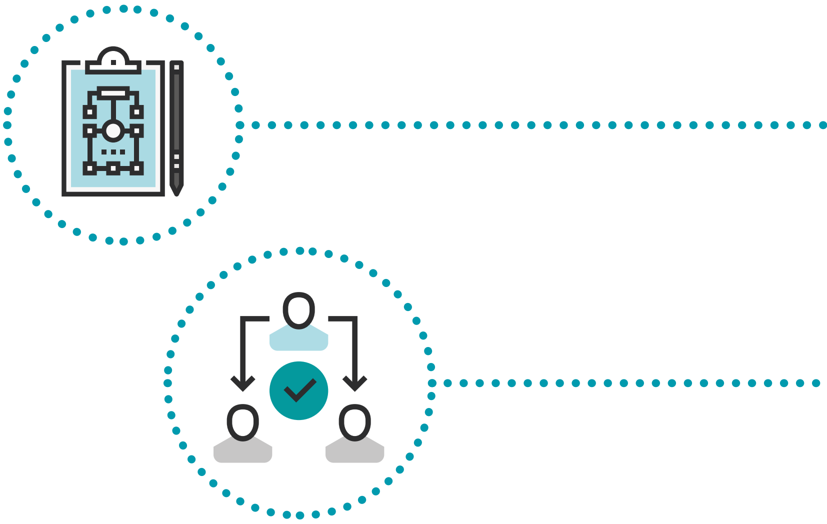
7 Financial Times, 'MSCI Chief: Push to standardize ESG ratings is "misplaced"', September 2021

Such is the active demand to increase the environmental data disclosure from firms, that this year's CDP Non-Disclosure Campaign identifies a 56% increase in the number of global investors now requesting corporate environmental disclosure[8].

A high-growth and dynamic market

In 2018, it was reported that there was already 600+ ESG ratings and rankings globally. Since then, the market has continued to expand at a rapid rate.[9] The fast-paced evolution of the ESG ratings industry has been spurred by new entrants coming into the market, as well as consolidation among the incumbents via mergers and acquisitions. Within this ESG ecosystem, there are around 30 significant ESG ratings and data providers globally[10], with a small number of these companies providing global coverage. The rapid market growth has been identified as both an opportunity and a cause for concern among our respondents, while much of the innovation in the market has come from boutique specialist rating providers, the heterogeneity of measurements and purposes is potentially unsustainable as more retail users look to rely on ESG Ratings for their investment decisions.

In what is a highly heterogeneous market, the following table provides a summary of the publicly available information of some of the leading providers and the key characteristics of their scores and ratings products.



8 CDP, 'CDP Non-Disclosure Campaign: 2020 Results'.

9 SustainAbility, 'Rate the Raters Report 2020: Investor Survey and Interview Results', March 2020

10 Sia Partners, 'The ESG data market: changes and challenges for financial services players', April 2021

TABLE 2
Differences among scores and ratings products

Arabesque S-Ray

RISK ASSESSMENT	INPUTS	COVERAGE	SCORE/RATING
The Arabesque S-Ray tool provides four categories of scoring: Global Compact (GC) Score: aims to understand reputational risk, and assesses companies based on human rights, labour rights, the environment, and anti-corruption; ESG Score: assesses companies based on financially material ESG issues to identify likelihood of outperformance over the long run; Preferences Filter: collects binary scores about company involvement in potentially controversial activities; Temperature Score: reflects a company's climate impact by translating emissions to a score based on sector-specific emissions pathways.	Describes its methodology as algorithmic. The tool processes over 150 million data points daily to produce the four scores.	The tool provides ESG information for over 25,000 companies, covering ~95% of global market capitalization.	Numerical scores (0-100), except for Preferences Filter which is binary, and Temperature Score which gives a score in degrees Celsius.
Sources https://www.arabesque.com/s-ray/faq/	https://www.arabesque.com/s-ray/our-scores/ https://www.arabesque.com/s-ray/products-and-services/ https://arabesque.com/docs/sray/Introducing%20Arabesque%20S-Ray.pdf	https://www.arabesque.com/s-ray/products-and-services/	Arabesque Methodology document

Bloomberg

RISK ASSESSMENT	INPUTS	COVERAGE	SCORE/RATING
Bloomberg provides a variety of proprietary and third-party ESG scores, which allow users to examine the scoring methodology and the underlying company-reported data. Amongst Bloomberg's current offering of ESG scores are: – Board Composition – Climate Transition – Environmental & Social (ES) – Environmental & Social News Sentiment – ESG Disclosure – Gender-Equality Index.	Bloomberg's data covers over 2,100 fields (including third party data).	More than 11,800 companies across 100+ countries, approximately 88% of global market cap, and 410,816 active securities.	

Differences among scores and ratings products CONTINUED

CPD Climate, Water and Forest Scores

RISK ASSESSMENT	INPUTS	COVERAGE	SCORE/RATING
CDP measures the level of commitment to climate change mitigation, adaptation, and transparency. The score assesses a company's progress towards environmental stewardship, awareness of environmental issues, particularly in relation to climate change, water, and deforestation management methods and progress towards action, based on their CDP response.	CDP is the world's largest environmental disclosure platform. They collect data on how companies, cities and nations measure and manage environmental risk through climate change, deforestation, and water security questionnaires.	"Climetrics" rates over 18,000 funds monthly, which represent around a third of the total assets of the global investment fund industry, over €15 trillion.	Letter score (A, A- to D-).

FTSE Russell

RISK ASSESSMENT	INPUTS	COVERAGE	SCORE/RATING
The ESG Ratings and data model identifies a company's exposure to, and management of, ESG issues in multiple dimensions. The ESG Ratings are comprised of an overall rating that breaks down into underlying Pillar and Thematic Exposures and Scores. The Pillars and Themes are built on over 300 individual indicator assessments, applied to each company's unique circumstances.	The ESG Ratings are based on publicly available data. Over 300 indicators, each of the 14 themes covered contains 10 to 35 indicators. An average of 125 indicators are applied per company.	7,200+ securities in 47 developed and emerging markets, comprising the constituents of the FTSE All-World Index, FTSE All-Share Index and Russell 1000 Index.	The exposure rating measures the relevance of the pillar to a company (from 0 = none, to 3 = high) The score rating measures the quality of a company's management of the pillar issues (from 0 = no disclosure, to 5 = best practice).

Differences among scores and ratings products CONTINUED

Institutional Shareholder Services (ISS)

RISK ASSESSMENT	INPUTS	COVERAGE	SCORE/RATING
ISS ESG delivers corporate and country ESG research and ratings, enabling its clients to identify material environmental, social, and governance risks and opportunities.	ISS ESG generally relies on publicly available information for its research offerings. These sources include corporate disclosures, media sources, social media, NGOs and (inter-) government agencies.	ESG Corporate Ratings: 9,700 issuers. ESG Country Ratings: 670 sovereign issuers including 120 countries. ESG Fund Ratings: 2,000 fund managers and 25,700 funds. Screenings & Controversies: 10,000 – 26,000 issuers. Climate: 25,000 companies.	Letter rating, ranging from A+/4.00 (excellent performance) to D-/1.00 (poor performance).

MSCI

RISK ASSESSMENT	INPUTS	COVERAGE	SCORE/RATING
The MSCI ESG Ratings model identifies the ESG risks, (or ‘Key Issues’), that are most material to a GICS (the Global Industry Classification Standard) sub-industry or sector.	Corporate disclosure and alternative data from media, academic, NGO, regulatory and government sources to supplement disclosures and uncover additional insights.	14,000+ equity and fixed income issuers.	A letter rating ranging from AAA to CCC.

Moody’s

RISK ASSESSMENT	INPUTS	COVERAGE	SCORE/RATING
Powered by a dual materiality methodology, ESG scores and assessments of small-, medium- and large-sized companies, sovereigns and sub-sovereigns. Controversy risk screening.	Publicly disclosed data from corporate reporting, including CSR and sustainability reports, annual reports, publicly available codes of conduct and internal policies. As well as a media aggregator.	ESG scores and assessments of 5,000+ listed companies and 170 sovereigns. Predicted ESG scores using model-driven approach provided for more than 140 million entities. Real-time assessments of a company’s exposure to and management of ESG controversies for over 10,000 companies.	

Differences among scores and ratings products CONTINUED

Refinitiv

RISK ASSESSMENT	INPUTS	COVERAGE	SCORE/RATING
Each company's ESG performance is measured across environment (emissions, environmental product innovation, resource use), Governance (CSR strategy, management, shareholders, community), Social (human rights, product responsibility and workforce). As well as a controversy score – to produce an ESGC score.	ESG metrics include more than 500 data points, ratios and analytics collected and calculated from company public disclosure.	Covers over 80% of global market cap and over 9000 companies across 76 countries.	Available in both percentages and a letter rating – A+ to D-. Updated on a weekly basis.

RepRisk

RISK ASSESSMENT	INPUTS	COVERAGE	SCORE/RATING
Each report includes: 1. Quantitative data section: metrics that capture the ESG risk exposure of the company, for both a two- and a ten-year timeframe – Environmental Footprint (pollution, impacts on ecosystems and landscapes, resource use, waste issues, animal mistreatment. – Social (community relations and employee relations) – Corporate Governance (corruption, executive pay, communication, tax, pricing) 2. Qualitative research section: Details of all the individual ESG risk incidents (news) related to the company, since 2007 (the launch of the ESG Risk Platform).	An outside-in approach to ESG risks, analysing information from public sources and stakeholders, intentionally excluding company self-disclosures.	180,000+ public and private companies across all sectors, and regions, including emerging markets. 23 major business languages to identify risks at the local level. Daily point-in-time data on 101 ESG factors.	RepRisk Rating is a letter rating - AAA to D. RepRisk Index is a measure of a company's reputational risk exposure to ESG issues – 0 to 100 RepRisk UNGC Violator Flag identifies companies with high risk of violating a UN Global Compact principle. RepRisk Violator Index: a metric tailored to your ESG risk framework, internal policies and risk appetite.

Differences among scores and ratings products CONTINUED

RobecoSAM

RISK ASSESSMENT	INPUTS	COVERAGE	SCORE/RATING
Ranks companies against industry peers across E, S and G metrics.	Smart ESG methodology removes biases typically produced by large-cap vs small cap companies in disclosure. Instead, identifying the most financially material sustainability criteria.	RobecoSAM assesses the world's largest companies through its Corporate Sustainability Assessment, which uses a consistent, rules-based methodology to convert 600 data points per company into one overall score.	SDG scores: Numerical scoring ranging from +3 to -3.

S&P

RISK ASSESSMENT	INPUTS	COVERAGE	SCORE/RATING
The ESG Profile score combines S&P Global Ratings assessment of three Profiles: Environmental (30%), Social (30%), and Governance (40%). Each ESG Evaluation comprises two inputs: the ESG Profile and Preparedness opinion.	Score based on company answers to S&P's Global Corporate Sustainability Assessment (CSA) and/or publicly available data. Assessment based on almost 1,000 data points.	Coverage of more than 7,300 companies, representing 95% of global market capitalisation.	The company's ESG Profile score and Preparedness opinion are combined to produce a relative overall ESG Evaluation score on a 100-point scale.

Sustainalytics

RISK ASSESSMENT	INPUTS	COVERAGE	SCORE/RATING
Uses a two-dimensional materiality framework to measure a company's exposure to industry-specific material risks and how well a company is managing those risks.	Data inputs based on company profiles, alternative data sources, such as regulatory filings and NGO sources, augment self-reported corporate data. Research analysts are supported by AI powered descriptive and predictive analytic capabilities, also used to conduct controversy research.	Spans more than 13,000 companies and encompasses most major global indices.	ESG Risk Ratings are categorised across five risk levels: negligible (0-10), low (10-20), medium (20-30), high (30-40) and severe (40+).

As the tables above demonstrate, ESG ratings are subject to fundamental divergences in their methodologies. This divergence materialises in three ways:

- **Scope** divergence relates to the variations in the different sets of attributes.
- **Measurement** divergence relates to measuring the same attributes in different ways using different indicators or units.
- **Weighting** divergence also applies as different providers take different views on the relative importance of different risks.

ESG ratings methodologies are subject to divergence and ambiguity, in particular, regarding environmental risk. Most investors would assume that a company's environmental impact is rated in terms of the company's impact on the world. Whereas there are several rating agencies that draw the rating from the potential impact of the world on the company. Consequently, ESG ratings heavily weighted towards environmental risk are not necessarily accessing how green a company is in terms of its own emissions, rather recognising to what extent a company faces negative implications in the face of climate change.

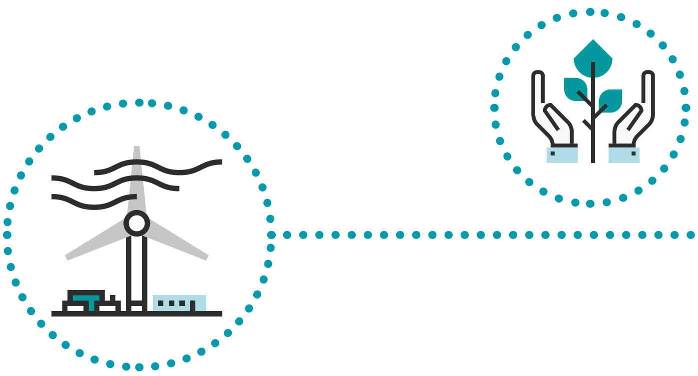
Furthermore, when a ratings agency upgrades a corporate ESG rating, this can imply to investors that the company has made progress in reducing its negative externalities. However, in many cases upgraded ratings are a consequence of ratings agencies changing their methodology or ESG 'mark scheme'. In some cases, a company's ESG rating is upgraded without the corporation having to make any changes to its internal or external operations. This calls on the ratings providers themselves to improve transparency on what their methodology is precisely seeking to give a rating for. This is discussed further in Section 3 of the report.

Without an established definition of what is meant by 'ESG', IRSG recognises that there are legitimate reasons for why divergence may occur across both scope and weighting. When considering inputs, different providers may regard different inputs as stronger indicators for ESG performance or may upweight these inputs in a different fashion depending on their perceived relative importance. This analytical decision remains subjective to the ratings provider, based on the product they are developing. However, the key ask is that this subjectivity is clearly explained and reasoned alongside any rating that is provided, to fully contextualise its meaning for those interpreting the rating itself.

On measurement, IRSG sees value in greater future alignment in both what is disclosed and how it is then used by ratings agencies, to avoid both duplication of efforts and confusion in metric units.

RECOMMENDATIONS

- **For industry to clarify definitions of terms used in ESG Ratings to improve consistency of understanding. Once established, industry, regulators and policy makers to adopt common language when describing the ESG Ratings landscape.**
- **For industry to continue to widen the scope of ESG Ratings being applied globally**



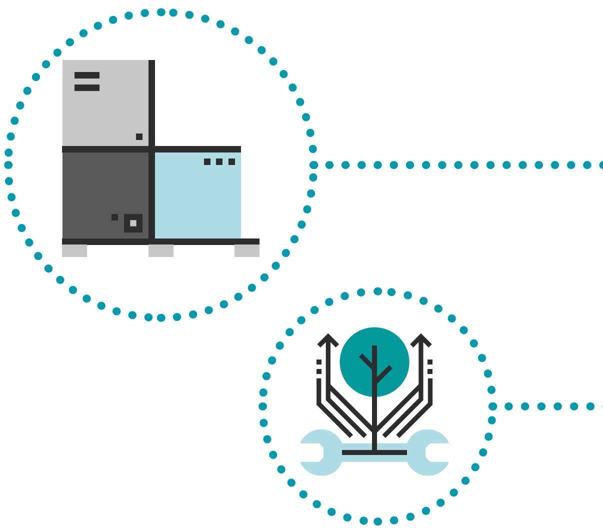
SECTION 2
REGULATING ESG MARKETS AND PROMOTING INTERNATIONAL COORDINATION

The pace in which the world is shifting its outlook towards sustainability and ESG consciousness is rapid. The recent COP26 summit saw the financial services industry commit to putting ESG at the top of the corporate agenda, most notably around new disclosure and reporting requirements.

The IFRS Foundation's establishment of the International Sustainability Standards Board (ISSB) was the star of COP26 in terms of sustainability disclosure. The ISSB will be the global standard-setter for sustainability disclosures for the financial markets, bringing together existing standards to build a single set of global norms which will cover all ESG factors. The ISSB will be a sister body to the International Accounting Standards Board (IASB), and so put sustainability reporting on the same footing as financial reporting. [11] The ISSB aims to drive globally consistent, comparable, and reliable sustainability reporting using a building-blocks approach. This approach will allow national and regional jurisdictions to build on that global baseline to set supplemental standards that serve their specific jurisdictional needs.

Equally, it was announced that the disclosure of climate-related financial information – in line with recommendations from the Task Force on Climate-Related Financial Disclosures – would be mandatory for the UK's largest registered companies and financial institutions from 6th April 2022. The UK's Department for Business, Energy and Industry strategy said:

> **"Our decision to require mandatory disclosures comes ahead of the G20 and COP26 summits, and it will increase the quantity and quality of climate-related reporting across the UK business community, including among some of the most economically and environmentally significant companies".**[12]



While there is no doubt that increased corporate disclosure on ESG factors will help to improve the availability and quality of the data underlying ESG ratings, this will not address some of the other

11 KPMG, 'New Sustainability Standards Board', November 2021

12 S&P Global, 'COP26: UK to mandate climate disclosures for largest companies', October 2021

challenges discussed below, in particular ESG ratings transparency.

What does good regulation look like in the ESG Ratings market?

Currently, ESG Ratings products face no direct regulation. However, the status quo looks likely to change, with most anticipating that efforts to regulate the market will begin in 2022. As ESG Ratings are now regarded as a key piece to the wider ESG agenda, this too comes with recently increased political attention. As such, we are at a fork in the road in terms of future approach. On the one hand, the continuation and promotion of voluntary good practice without regulatory oversight, on the other the introduction of a proportionate form of regulation to the market focused on the key areas.

IRSG's view, alongside recent international and national announcements, suggests that regulation to the ESG Ratings market is soon required. HMT's 'Greening Finance: A Roadmap to Sustainable Investing'[13], published in October 2021, sets out specifically its intentions on ESG data and ratings providers, including:

- The UK government's consideration in 2022 for bringing ESG data and rating firms into the scope of FCA authorisation and regulation – with further details expected next year
- The government and regulations consideration to delivering the digitisation of ESG data, potentially including a centralised register

If the expectation is that the ESG Ratings market will be regulated soon, then the design and implementation of that regulation is crucial. Industry will have a large part to play to ensure the regulation does not to stifle the innovation of a nascent and developing market, nor to act as a barrier to entry to new market players. IRSG is advocating that any future regulation to this market is both principles-based and proportionate.

In 2016, the FCA set out eight principles for good regulation for the way it operates as a regulator: Efficiency and economy, Proportionality, Sustainable growth, Consumer responsibility, Openness and disclosure, Transparency, Senior Management responsibility and recognising the differences in the businesses carried on by different regulated persons.

The first six of these principles are relevant considerations for what a principles-based approach could look like for regulating ESG Ratings. If regulation is seen as the answer, then it needs to be crafted with due consideration to the nascent nature of the ESG Ratings market. The remainder of this report will explore how this regulatory principles-based approach could be introduced to the ESG Ratings market, including highlighting any current or potential issues that may arise.

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13 HMT, Greening Finance: A Roadmap to Sustainable Investing, October 2021

The current international ESG regulatory landscape

In seeking to address the problems identified in this report, regulators in different jurisdictions should work to adopt a consistent framework for regulating ESG Ratings. In the immediate term, this is likely to start with improving data disclosure regulation.

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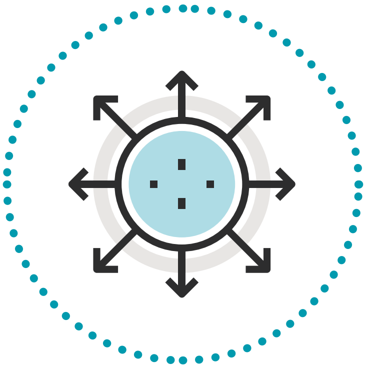
The IRSG strongly argues the need to avoid major jurisdictions adopting different approaches. The ideal outcome would see supranational bodies, such as the G20, play a leading role in defining standardised data disclosures. For example, with respect to improving data quality, IOSCO and the FCA have been working with the IFRS Foundation to develop a global baseline that promotes the global consistency of ESG standards and ratings. The ambition is to create a new International Sustainability Standards Board (ISSB) to work alongside the International Accounting Standards Board (IASB). The initial focus will be on addressing climate change.

The use of this baseline across jurisdictions should enable comparability. However, we recognise that it will be difficult to find sufficient agreement in support of a truly harmonised top-down approach. The reality is likely to be one of organic regulatory creep as different jurisdictions take different approaches.

We believe that there is the potential for a regulatory first-mover advantage: the first jurisdiction(s) to create a statutory approach to address environmental disclosure coverage and quality issues will provide a template for others to follow, moving quickly to adopt the global standards established by ISSB once released. It will be left to major players in the sustainable finance market, notably the UK and the EU, to continue to play a strong leadership role in developing regulatory frameworks.



Other regions are making progress though perhaps not at the same speed and not always in the same direction. Notably, the Biden administration in the US will provide further impetus for improved disclosures in the US. However, the EU is moving rapidly towards the adoption of mandated disclosures, so moving beyond the TCFD approach; in the US, the Securities and Exchanges Commission (SEC) climate disclosure proposal is expected to be based on the TCFD and harmonised with ISSB.

"International collaboration is key. It's a race to develop a framework that can deliver the results. The framework that proves to be workable will become the blueprint."

Elena Philipova, LSEG

TABLE 4:
Regulatory approaches to ESG disclosures in Financial Services by region

REGION	APPROACH
UK	The FCA published its new ESG strategy in October 2021, which is built on five core principles, two of which are particularly relevant in addressing the issues in this report: Transparency – enhancing climate-related financial disclosures and working to promote global standards on sustainability reporting Trust - support effective integration of ESG into financial market decisions making through the delivery of ESG-labelled securities, products, and services. The FCA business plan 2021/22 highlights the need to focus on high quality climate-related disclosures and improved governance arrangements for effective ESG markets. The FCA have also introduced a new ESG sourcebook on 1st January 2022, containing rules for asset managers to make disclosures consistent with the recommendations of the TCFD. Additionally, from April 2022, the UK government will require UK-registered companies and financial institutions with more than 500 employees and over £500m in annual turnover to disclose climate-related financial data, in line with the TCFD, on a mandatory basis. This will make the UK the first G20 country to enshrine the mandate into law. In 2022, the UK is likely to expand this to adopt the new ISSB standard once published.
EU	The EU's incoming disclosure requirements are expected to be the most extensive globally: Since 2017, the EU has required listed companies to include a "non-financial statement" concerning CSR in their annual reports. In 2019, the EU went further and issued guidance on the disclosure of climate related information. The EU has also introduced new requirement on the disclosure of conflict minerals in supply chains, and in particular countries (i.e., UK Modern Slavery Act and French Duty of Care Law), the impact of companies' operations and practices on human rights. Furthermore, the SFDR, CSRD and EFRAG have proposed the adoption of EU sustainability reporting standards, which will be tailored to EU policies, while building on and contribution to international standardisation initiatives. The first set of standards will be adopted by October 2022.
USA	The SEC has 'decided to take a different tack on climate-risk disclosures than its counterparts in Europe'. The SEC is not targeting investment managers, but taking a company focused approach. The SEC is expected to propose new disclosure requirements for companies in early 2022, which will likely include: Consistent, comparable, mandatory disclosures, which are useful to the decision making of investors, based on the TCFD. These disclosures are expected to be required in Form 10-K securities fillings. Qualitative and quantitative disclosures. The SEC wants more transparency in disclosures supporting forward looking commitments (i.e., net zero) – with requirements on data that suggests how the company will meet those commitments. SEC has set up an Enforcement ESG Task Force to look for gaps and misstatements, to clamp down on greenwashing.

CONTINUED...

Singapore	Singapore has had a relatively flexible ESG regulatory regime, allowing most businesses to choose whether to comply with ESG practices. Despite incentives including over SG$1bn in projected expenditure by the Singapore government to help businesses become more energy and carbon efficient, there has been a reluctance for companies to take on ESG policies. MAS' Green Investments Programme promises to invest up to US$2bn in public market investment strategies that have a strong green focus. The Singapore Exchange Regulation (SGX RegCo) is proposing a phased approach for climate-related disclosures and a board diversity policy to be made mandatory in issuers' sustainability reports.
Hong Kong	Committed to mandatory TCFD disclosure across most sectors of the economy by 2025, updated in the recent fund managers Code of Conduct.

The broader regulatory toolkit

The shape of bank lending and investment portfolios is already being slowly changed by the evolving regulatory landscape. Further regulation can give this process a helpful nudge. Whilst this report focuses largely on areas of market conduct, this is not the only way to ensure that we 'green' capital markets and reallocate capital to better reflect climate risks.

In March 2021, the EBA consulted on its technical standards on Pillar 3 disclosures under ESG risks[14]. This proposed comparable disclosures on climate-change-related transition and physical risks, including information on exposures towards carbon-related assets and assets subject to chronic and acute climate change events. Similarly, it includes the suggestion of a Green Asset ratio that identifies the institutions' assets financing activities that are environmentally sustainable according to the EU taxonomy.

Understanding the wider context in which ESG Ratings are operating, and other complimentary but separate initiatives that are aiming to push in the same direction, is vital if any future regulation is to be impactful in strengthening this nascent market.

RECOMMENDATIONS

- **For regulators, future regulation of ESG Ratings needs to be proportionate and principle-based in recognition of the nascent nature of the market**
- **For regulators and policymakers, to seek international collaboration and co-ordination in any future regulatory framework – recognising the recent progress made by IOSCO and ISSB**

14 EBA, CP/2021/06, March 2021

SECTION 3
ENHANCING MARKET TRANSPARENCY

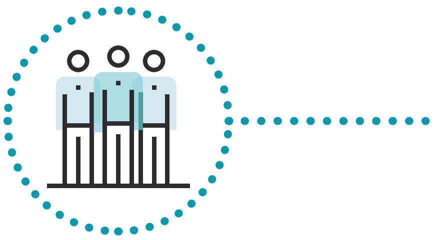
The case for transparency – ensuring full disclosure across the ESG ratings landscape

While growing rapidly, the sustainable finance ecosystem remains in transition. The growing presence of both established financial players and relatively new start-ups exemplifies the commitment of the industry to develop decision-useful data, analytics, and insights for a broad stakeholder base. The existence of both established players and start-ups creates some industry tension between those who support bringing the market fully into the regulatory perimeter and those who believe the industry should be afforded the flexibility it needs to continue to innovate and meet the evolving demands of investors. However, the need to promote the transparency agenda is one area of common ground where views were consistent across market practitioners.

For ESG Ratings agencies, their purpose is to provide ESG ratings users with information about a company's ESG impacts or its ESG risks and opportunities, dependent on the product's objectives. For the firms being rated, this rating can give a clear indication of where and how improvements are required to improve on this third-party rating in the future. Oftentimes, part of the challenge for firms in making this improvement is that they currently do not have the data granularity required to implement the necessary changes. If ESG Ratings are to be fit for purpose, a key catalyst for their success and expansion will be whether ESG Ratings have enough transparency for rated entities and users to understand the objective and methodology of the rating, including the underlying data used how seriously companies realign their own internal ESG data structures in recognition of the increased external scrutiny and demand to be performing and disclosing on these metrics.

Drawing distinctions with regulating CRAs

In pursuing the transparency agenda, the IRSG generally reject parallels with the approach taken in regulating Credit Ratings Agencies (CRAs). The key differences include:



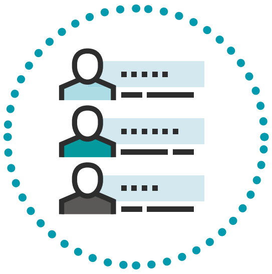
- The policy issues concerning ESG ratings, data products and providers are not directly comparable given the distinct objectives of their products and differences in operating landscapes.
- While tools such as ESG assessments and credit ratings can be

complementary, they perform distinct roles that support the differing needs of market practitioners and should be treated as such from a policy perspective.

- With respect to the operating landscape, the CRA industry is well-established with a depth and range of well-defined products. Regulation, when crafted for CRAs, addressed a mature, long-standing industry and codified well-established practices in a manner that reflected the needs of the market and users of credit ratings. In contrast, the ESG ratings and data products landscape continues to develop, serving a broad range of market segments with multiple needs.

The risk of importing over standards intended for one industry would be the creation of standards that are not appropriate for the market or that will not best serve the needs of end-users.

The sheer diversity in companies and solutions underscores the importance of creating a principles-based regulatory approach. This will, in turn, guard against potential unintended consequences of imposing standards that create barriers to entry or that drive changes in business models when a nascent industry is rapidly evolving in response to multiple demands. It is for this reason, that the IRSG welcomes the fact that several securities market regulators have recognised the importance of independence of methodologies from regulatory stipulations, and instead focused on the need for greater transparency in methods. For example, the need to promote greater market transparency forms a central element within the recent IOSCO report.[15] Clear and transparent information on the data and methodologies underpinning ESG and sustainability ratings and assessments will enable investors and other users of such products to decide which approach best suits their own investment philosophy.



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A proportionate approach to improving transparency: institutional vs retail markets

A further issue of consideration is the diverse way in which ESG ratings are currently used within the financial industry. Traditionally, ESG ratings have intended to provide directional guidance to help and support institutional investment decisions. As such they are not usually the determining factor to a given investment strategy.

The ESG rating that a firm receives can be subjective and does not necessarily reflect that those companies included are necessarily making a positive environmental, social or governance impact. This is perhaps not a huge problem in the current market, but there is the potential for this issue to grow quickly in the coming years given the rate at which ESG rating is permeating the retail investment landscape.

This distinction between institutional and retail end-users naturally impacts on how transparency rules should be applied. Those viewing this issue from the institutional end of the market support transparency

15 IOSCO, ESG Ratings and Data Providers Final Report, November 2021

requirements being applied at the level of the ratings methodology so that institutional investors relying on them can have an accurate view as to what is measured by the rating.

Such transparency should focus on the following aspects:

1.	The data processes: data sources and data quality checks
2.	Restrictions on the use of less reliable/unaudited data sources
3.	Methodologies should be made public, by the ratings provider's website, and explained in detail including the use of proxies and estimations, while enabling appropriate protections of their intellectual properties.
4.	Governance on the changes made to the methodology
5.	Interaction with companies subject to the rating
6.	Clear definition of the objective of the ratings

For this approach to work, it would require the development of industry codes to take forward. This code could include making amendments to product design features such as the simplification of methodologies across ratings agencies and a better alignment of data sources to improve comparability. This overall approach could be adopted within institutional markets in a relatively quick timeframe. This could then be enhanced with further thematic reviews by regulators into the nature of retail market usage and emerging consumer risks.

Addressing ESG data and ratings product complexity

We highlight the role of simplified product design above, given the complexity of ESG ratings products. The vast scale of issues captured within the scope of environmental, social and governance factors means that ESG ratings products can be extremely complex. These products cover virtually every non-financial risk that a business can face. These complex ratings models mean that it is difficult for an investor to understand the detail of ESG ratings methodologies even if the ratings provided are transparent.

Furthermore, there is not necessarily a high correlation between those non-financial risks - for example, a company can have a strong track record on employee protection but perform poorly on pollution. Any rating that covers such a broad basket of risks will struggle to provide a predictive tool of the likelihood of an individual ESG risk materialising. This is in sharp contrast with Credit Ratings products, where there is a high correlation between a company's credit rating and the risk of credit default. For example, while there is a linear relationship between credit default swap spreads and issuers' credit ratings, the NYU Stern Center for Sustainable Business found that although there is positive relationship between ESG and financial performance for 58%

"There's a paradox. On the one hand, investors want to fully understand how we come to our rating, so require transparency, but our model is sophisticated and structured, so it takes a while to fully comprehend how the model works. That is in contrast with the time that a typical investor wants to spend on reading one of our reports. So, we try to present our information in certain layers."

Wilco van Heteren, Sustainalytics

of their corporate studies[16], the correlation is not strong enough in ESG ratings to show a linear pattern. Furthermore, where this positive relationship is observed, the causality remains uncertain, and it cannot be established that it is a strong ESG rating that drives profitability or vice versa.

To provide an assessment of so many material risks in one rating will always prove difficult and naturally involve an element of judgement. For this reason, over time IRSG suggest that there needs to be a bifurcation, or trifurcation, of the market, to assess 'E' 'S' and 'G' factors in separate ratings products. In reality, the investment market is probably best served by adopting more of a dashboard approach with multiple metrics rather than relying on a single ESG rating. This would also allow for the potential trade-offs that emerge between different (and potentially conflicting) ESG factors to be fully visualised. The ratings market is already responding to this challenge with providers such as MSCI[17], Morningstar[18] and Moody's[19] increasingly focussed on segregating ESG factors with climate becoming a standalone ratings product.

However, even standalone E, S and G ratings would see each rating cover a hugely diverse basket of risks. Given the context of this market, investors need to know what each rating measures, what assessment has been made of a company's material ESG risks, what methodology has been used to calculate the rating, from what data sources that rating is derived, whether the data was audited, and how that data has been analysed including the use of proxy data.

This process is made even more complex by the broad range of heterogeneous products on offer, reflecting diverse end-user needs. Different rating products are designed to perform different tasks. Ratings are often designed to be used in risk management and portfolio construction with investors using ESG ratings to inform asset allocation. They can also be used to support regulatory disclosures, as well as demonstrate ESG transparency and leadership among employees, clients, and other external stakeholders. Each ESG rating performs these tasks in very different ways using different methodologies. These variations in methodology can make them difficult to use, and the use of data and the weightings attached to that data is not wholly objective. These concerns were cited by the US Securities and Exchange Commission (SEC):

"Some of the data used to compile third-party ESG scores and ratings may be subjective. Other data may be objective in principle but are not verified or reliable. Third party scores also may consider or weight ESG criteria differently, meaning that companies can receive widely different scores from different third-party providers."[20]

16 NYU Stern, 'ESG and Financial Performance: Uncovering the Relationship by Aggregating Evidence from 1,000 Plus Studies Published between 2015 – 2020', February 2021

17 Financial Times, 'MSCI chief: Push to standardise ESG ratings is 'misplaced'', September 2021

18 Financial Times, 'Morningstar chief calls for 'high bar' on ESG regulations', August 2021

19 Moody's ESG, 'Climate Solutions for a Sustainable Future'.

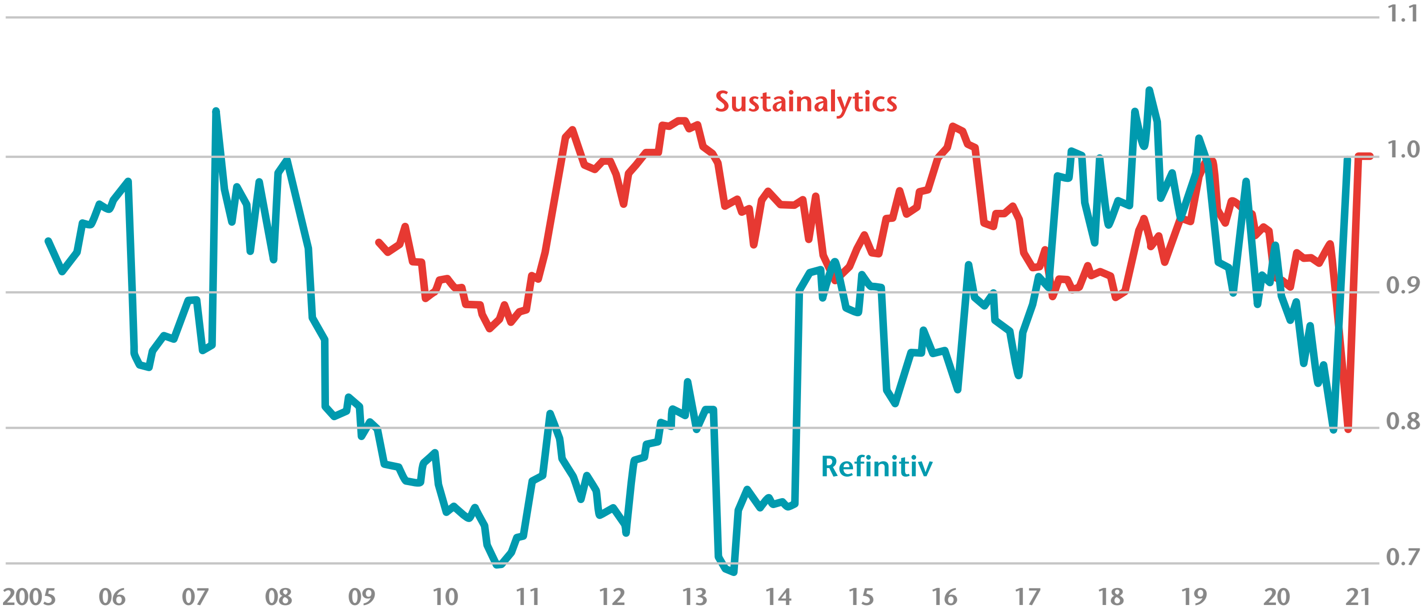
20 SEC, 'Environmental, Social and Governance (ESG) Funds – Investor Bulletin', February 2021

As the SEC indicate above, the diverse range of ESG rating methodologies means that the ratings provided by different ratings providers may conflict. On average, the correlation between the leading ratings providers is 0.54, but this can range from 0.38 to 0.71.[21] This diversity in approach, with varying methodologies, analytical processes and materiality perspectives, is likely to lead to a diversity of conclusions across rating providers. In term, this will influence a diversity of interpretation by individual issuers.

Consequently, the wider market is currently being sent mixed messages about the ESG performance of a company by different ESG providers, which will require a better balance differing products. In part, this proliferation of offerings is being welcomed, as there is no single, unified definition of what 'ESG' should be measuring. As such, depending on the individual philosophy of measuring ESG, market demand has led to a range of different rating products being sought and valued by investors from providers. However, without clear messaging about what a specific product is measuring when rating a company, there is a high risk of misinterpretation and confusion occurring for those relying on ESG ratings, if they are being used as a heuristic for something they do not actually represent.

Without due care, the range of products being offered could have potential negative consequences on how they are used in the market. Firstly, it dilutes the impact of ratings products on corporate stocks and bond prices as investors may receive conflicting assessments and opinions. Secondly, it potentially undermines efforts among issuers to improve their ESG performance because they lack clarity about which impact should be mitigated or targeted.[22]

CHART 1
COMPARISON BETWEEN P/E & ESG PERFORMANCE



21 Berg, F. et al, University of Zurich, 'Aggregate Confusion: The Divergence of ESG Ratings', December 2020

22 Berg, F. et al, University of Zurich, 'Aggregate Confusion: The Divergence of ESG Ratings', December 2020

On a more positive note, a review by Oxford University and Arabesque demonstrates that sustainability information is relevant for understanding corporate performance and investment returns.[23] Furthermore, a meta-analysis of over 2000 studies revealed that focussing on ESG criteria generates positive returns, and roughly 90% of the studies found a non-negative ESG to Corporate Financial Performance relation.[24]

However, in the absence of a 'true ESG performance' indicator, the IRSG supports the need for greater transparency when connecting the ESG rating and ESG outcomes, and so making the link stronger. To do so, ESG rating agencies must provide consistent disclosures as to what methodology is being used, what data sources are input, how that data is being used and analysed in terms of the use of proxy data, estimations, and weighting applied. This could go as far as creating a shared utility data platform which would provide a more consistent methodological approach in comparison to the existing proprietary models. This was also a key conclusion of the MIT report:

> **"ESG ratings do not, currently, play as important a role as they could in guiding companies towards improvement. To change this situation, companies should work with ratings agencies to establish open and transparent disclosure standards and ensure that the data they themselves disclose is publicly accessible."**[25]

The recent policy paper from HMT puts down a marker that the digitisation of ESG data will be one specific area that it will investigate next year, with the potential for the creation of a centralised register.

RECOMMENDATIONS

- **For industry to establish clear and transparent methodologies that explain the objectives of ESG Rating products**
- **For industry to develop clear marketing practices for ESG Ratings, potentially requiring future regulatory supervision**
- **As the ESG Ratings market matures, for industry to give further consideration of bifurcation or trifurcation of E, S and G factors**

23 Arabesque and University of Oxford, 'From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance', September 2014.

24 Friede, G. et al. 'ESG and financial performance: aggregated evidence from more than 2000 empirical studies', October 2015.

25 Berg, F. et al, University of Zurich, 'Aggregate Confusion: The Divergence of ESG Ratings', December 2020

SECTION 4
FILLING THE ESG 'DATA GAPS'

Data remains the single biggest challenge facing the emerging ESG market. The primary challenge faced by ESG rating providers being that of gaps in data coverage, due to insufficient corporate data disclosure. The underlying data that feeds into ESG models and ratings needs to improve in several areas:

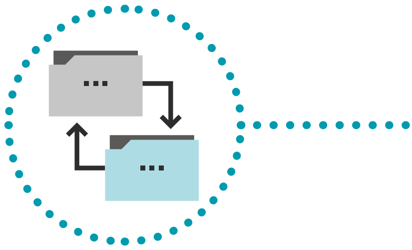


TABLE 5
Current Challenges on ESG Data

AREAS OF IMPROVEMENT	COMMENTARY
AVAILABILITY	Data coverage remains problematic. There is good availability in certain areas, namely large cap firms in developed markets. However, even among this profile, little more than one per cent of 5,000 large companies globally are disclosing substantial levels of climate data. Data gaps are even more so commonplace in mid-cap, small-cap, and emerging markets. This forces ratings agencies to rely on proxy data and estimations. To date, over 50 global financial institutions including banks and asset managers, have sought to fill these gaps by developing their own internal ESG platforms which rely on gathering data directly from clients and prospects.
RELEVANCE	The relevance of certain ESG metrics can vary considerably from industry to industry. For example, with regard to G the relevant sub-criteria used are relatively universal between industries, the same cannot be said for E and S, whose relevant sub-criteria are hugely industry dependent. There is a risk that not all the relevant data information will be gathered to produce a reliable rating, this presents risks, such as greenwashing, misallocation of resources and a lack of trust in the data product's overall relevance.
COMPARABILITY	There is no universally accepted approach to measuring non-financial indicators. However, in September 2020, five leading standard setters for ESG reporting suggested that "existing frameworks, standards and standard-setting processes can provide the basis for progress towards a comprehensive corporate reporting system". The IRSG supports this view but questions the market's appetite to make that progress on only a voluntary basis.
QUALITY	Reliance on unaudited disclosures undermines reliability, comparability, and coverage. This raises broader issues around the need to improve ESG data assurance and accreditation more broadly.

Improving data gathering

Improvements in the consistency of information, depth of information, and efficiency in provision of information from rated entities to ESG rating providers is desirable. The lack of quality and consistency of public companies' ESG disclosures and the lack of comparability across ratings present barriers to the growth of the ratings market.[26] This has been more of an issue in emerging markets to date, with the EU and UK seen as taking a leadership role on climate risk disclosures.

Over time, we can expect to see improved data disclosure across all regions. This will be driven initially from corporations and then by investment firms, which are increasingly reporting on the climate and social impacts of their funds and holdings. Moody's 2021 ESG Outlook publication predicted that 2021 would see an increase in momentum for companies that can better position themselves for ESG issues. For example, as the market focuses more on climate change, investors, lenders, and insurers will seek to minimise exposure to carbon intensive activities, such as coal mining. While that is an obvious example, we will start to see less obvious examples of companies facing an increased cost of capital and divestment of their securities, particularly as transition timing expectations differ between the corporations and the investors, funders, and insurers.

This may start slowly, with marginal divestments and cost increases, but the pressure will certainly continue to build. Moody's highlights the point that the next generation of consumers will influence corporate behaviour and will have the technology not just to better monitor, but also to rapidly share what they find across social networks. And they will be prepared to pay a little more to 'do the right thing'. From a financial services point of view, the risk is that slow movers are left behind and end up holding, insuring, or funding what others no longer want.

"Within 5 years or so, there will be a huge switch. It will be required in order to operate for the majority of all organisations to publish their impact statements alongside their financial statements. For both private and listed companies, these impact statements will be standardised, transparent, comparable and audited, a reality which doesn't exist in the current ESG world."

Paul Arrad, Impak

26 GAO, 'Public Companies: Disclosure of Environmental, Social and Governance Factors and Options to Enhance Them', July 2020

The relationship between issuers and ESG ratings agencies

Improving the flow of data between issuers and ESG ratings agencies is a key challenge in improving the overall quality and accuracy of ratings. There is often a lack of a continuous relationship between ESG ratings agencies, and the companies being rated. This is particularly true pre-publication of the ESG rating. While some ratings agencies will proactively communicate with issuers, this does not apply to all ratings agencies. Where this communication is not taking place, this may lead to inaccurate ratings production putting the reputation of companies at risk. Equally, when ratings agencies do not communicate changes in their methodologies, it makes it difficult to compare old and new company ratings, and companies struggle to improve their rating as it is unclear how the ESG rating is reached.

Payment Model for ESG Ratings

This cannot be divorced from the wider question of the subscriber pays vs. issuer pays model. As the IRSG commented in our recent IOSCO submission, one benefit that can arise from a (primarily) issuer pays model is that it creates a relationship between the issuer and rating agency whereby a streamlined and confidentiality protected channel for information sharing can be created. This is not an insurmountable arrangement to achieve in a subscriber pays model, but pressures on market depth and coverage could lead to a greater number of unsolicited ratings without full transparency as to the nature and depth of information received from the rated entity on which the rating is based. We suggest that work in this space should be progressed having regard to the interplay between these two aspects.

> **"The issuer pays model creates a closer contractual relationship between the rating agency and the issuer, encouraging cooperation, communication and information sharing which is ultimately beneficial to data disclosure."**
>
> **Nick Bonsall, Slaughter & May**

RECOMMENDATIONS

- **For industry to improve data disclosure and gathering, supported by greater alignment in standards by policymakers such as the newly formed ISSB**
- **For industry to strengthen the relationship between firms and ESG Rating providers, to increase trust and validity in ESG Ratings**
- **For regulators and policymakers to facilitate the ESG Ratings market to develop organically in terms of payment model, recognising it remains too early to tell which option is preferable**

SECTION 5
IMPROVING INVESTOR PROTECTION

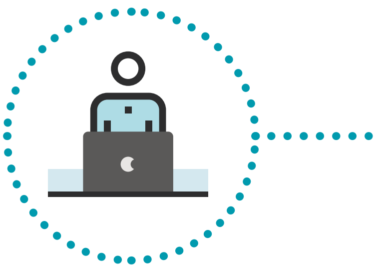
Investors are key constituents in developing the ESG market. In the context of this report, we largely focus our comments on institutional investors such as investment banks, asset managers, insurers, and pension funds. As the custodians for trillions of dollars' worth of assets, managed on behalf of households, businesses, and public sector organisations, they play a vital intermediation role in ensuring that capital is allocated in a way which properly addresses ESG risks. For this reason, any regime currently in development should have regard to how investor confidence can be best assure.

A central element of providing future investor confidence will be by addressing current limitations on rating issuance or ratings. Market confidence is contingent upon there being a high degree of transparency around rating methodologies, and the consistent application of those methodologies. Large asset owners are required to assess ESG risks as part of their internal and external mandates. CEOs and Boards are required to demonstrate that they not only understand their ESG risks but are actively mitigating those risks. ESG ratings are a particularly powerful tool in helping investors to assess those risks. As a result, ESG ratings are having an increased influence on the allocation of capital. For this reason, the data gaps and data quality issues outlined in this report are critical to investors. Making assessments based on partial data could potentially skew investment strategies and even lead to misallocation of capital, undermining the supposed benefits of ESG ratings products.

In practice, the risk of capital misallocation is mitigated by the fact that asset managers use multiple tools to assess ESG risks creating a more complete picture of a business assets' climate risk profile. They would not rely on the information provided by an ESG rating in isolation. But as the proliferation of ESG ratings products grows, and with it the usage and reliance on them growing too, this could become an area of growing conduct and/or market risk. For this reason, financial market participants who use and place reliance on ESG ratings in investment decision-making should be encouraged to conduct detailed due diligence on rating products and the limitations and purposes of rating products.

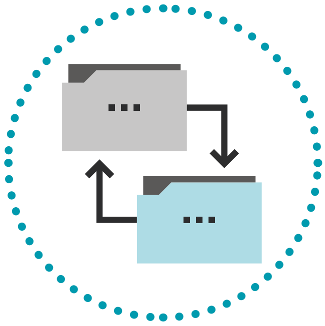
"Whereas previously it was primarily the focus of institutional investors, the retail market is increasingly looking for greater transparency and standardisation. You need to be transparent in your reporting, the objective of the product and the impact it's having. This then has to be very clearly communicated with all end users."

Elena Philipova, LSEG



Three key conduct risks

1 Needing clarity about ESG risk vs. ESG impact



Clarity on what different ratings and data products are intended to measure and capture is extremely important and not always clearly articulated. Without clarity and transparency, investors may assume that an ESG rating based on ESG risk is indicative of a company's ESG impact. While ESG risk and sustainability impact can be related, they are different measures that should not be conflated. ESG risk, sometimes referred to as 'materiality', measures the risk that ESG factors pose to the performance of an organisation. ESG impact, often referred to as 'double materiality', measures the environmental and social impact of an organisation. While ESG impacts may present ESG risks, the two measures are not one and the same. It is, therefore, essential that ratings providers offer clarity and transparency on what different ratings and data products are intended to measure.

2 Protecting retail investors

Regulators may need to pay attention to how ESG ratings products are promoted, particularly in retail markets where end-users will be less aware of what the ratings are measuring or how those ratings should be applied to investment decisions. While end-users may presume that a corporation with a high ESG rating is equivalently climate conscious, this may not always the case. ESG Ratings providers need to ensure that their products are being appropriately applied to meet user needs, both within an institutional and, where applicable, retail setting.

3 Managing conflicts of interest

Aligning the interests of product manufacturers, distributors and end users is a key issue in any market. In ensuring that investors are protected, it is important that the market has confidence that ratings are not being influenced by external pressures or conflicts of interest. Where conflicts arise which cannot be easily mitigated then full disclosure should always be a requirement on firms.

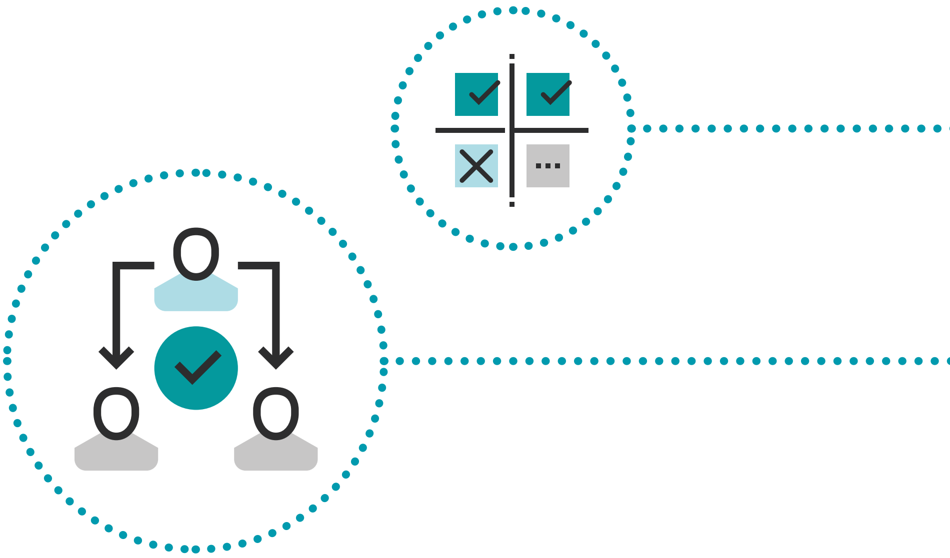
Clearly, who pays for the ratings to be compiled could influence the outcomes of any ESG assessments. However, at the same time, the issuer pays model can have major advantages by encouraging issuers to share relevant data with the ratings agency to undertake a more accurate ESG assessment.

For these reasons, the IRSG is clear that regulators should not favour one fee model over another. Instead, regulation should allow individual ESG ratings and data products providers to demonstrate how they address perceived or actual conflicts of interest, rather than construct narrow requirements that fail to recognise the fast-evolving nature of the sustainable finance ecosystem and/or the broad range of products and services in the market.

The IRSG agrees with the approach adopted by IOSCO that conflicts of interest should be mitigated, and where they cannot be mitigated, they must be disclosed, both in terms of fees and relationships, particularly where the rating agency is providing other services to the issuer.

RECOMMENDATIONS

- For industry, to mitigate the risks of greenwashing through improved transparency into the rating objectives and methodology, to be overseen by regulators and policymakers where required
- For industry to mitigate conflicts of interest, or fully disclose where mitigation is not possible, to be overseen by regulators where required



SECTION 6
PROMOTING MARKET SOLUTIONS: ESG DATA AS AN ENTERPRISE-LEVEL ASSET

A principled-based approach to regulation trusts industry to have the right processes and data in place to fulfil their responsibility. If this is the route regulation to ESG ratings takes, then information will be critical. Data alone will inform the process of 'greening' the balance sheet, to manage ESG risks, to provide transparency for stakeholders and to identify customers' new ESG needs. Understanding the ESG profile of customers, counterparties and financial assets is critical but building robust, scalable, and anti-fragile ESG data solutions is a major challenge. Without this reliable data input, there will be question marks remaining over the validity of ESG ratings which are outside of the provider's ability to answer.

As ESG data use cases continue proliferate across both buy side and sell side of financial services, financial institutions need to consider how best to develop an ESG information architecture that understand and align customers, counterparties and the ESG profile of the firm's lending and investment portfolios.

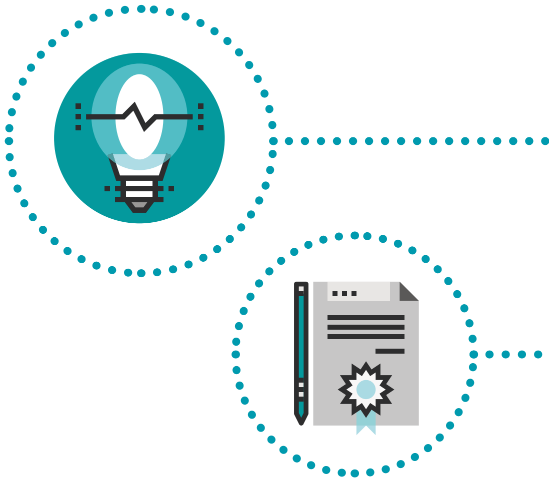
TABLE 6 - Key ESG data use cases within financial services

AREAS OF IMPROVEMENT	COMMENTARY
PRODUCT CLASSIFICATION	Implementing classification systems for Green and sustainable financing, including solutions to assess alignment with internal frameworks, taxonomy and SFDR
CUSTOMER INSIGHTS	ESG profiling of customers, to inform the design and marketing of new offerings and to support engagement on transition planning
CLIMATE RISK	Incorporation of climate factors into financial risk measurement and management, including policies, appetite, scenario analysis (e.g., PRA SS3/19, CBES, LOAM)
EMISSIONS KPIS	Reporting on GHG Scope 3 financed emissions as part of the bank's Net Zero commitments and delivering insights to inform strategic initiatives to drive emissions reduction
ESG DISCLOSURES	Compliance with multiple mandatory and discretionary external disclosures and reporting frameworks (e.g., TCFD, SASB, WEF and other climate or ESG related disclosures)

Currently, data is often used in siloes across different business units within financial institutions. Developing an enterprise level response, by designing more centralised data and technology platforms, is essential in helping to break down silos in systems. A more centralised approach to ESG data management could bring several benefits.

1 – Future proofing business models against further developments in data volumes and modelling:

The multiplicity of ESG data sources and fluidity of data structures is likely only to increase, with the data consumption models of today soon to be outpaced by new innovative approaches to fill current gaps. Financial institutions must position themselves to evolve and innovate by building data capabilities that recognise the multi-facet nature of ESG data, the need for traceability, as well as the ever-growing universe of ESG data and analytics vendors. In practice, this requires financial institutions to integrate metadata and lineage solutions with dynamic vendor sourcing, as new models to assessing and measuring ESG risks come on-stream in the future.



2 – Improved quality assurance will help stand the test of increased data scrutiny:

Scrutiny around ESG data sources is only going to increase. External stakeholders will want greater proof and validity to support banks' and asset managers' ESG assertions, with greater assurance and traceability expected in the future. By centralising the ESG data model, the oversight of different data sources will be easier to tackle and explain. Not only this, but it will allow reporting on ESG data to move from the defensive to the proactive, with insights on how to better optimise the data being pushed into the business, potentially accelerating its pace of adoption and support across the bank.

3 – Improving the ownership of ESG data within the business:

Because of the current tactical approach to using ESG data within financial institutions, it is not always clear who owns the process for gathering and managing that data. Centralising ESG data can provide a technical fix to address this issue, but it also requires efforts to improve risk management and corporate governance. Recent publications by the Climate Financial Risk Forum recommends the introduction of a new climate risk appetite statement demonstrating who owns climate risks within an enterprise and sets out use cases for applying that statement in different types of financial institution, for example, incorporating long horizons for insurers, and the exposure to greenwashing risks for asset managers.

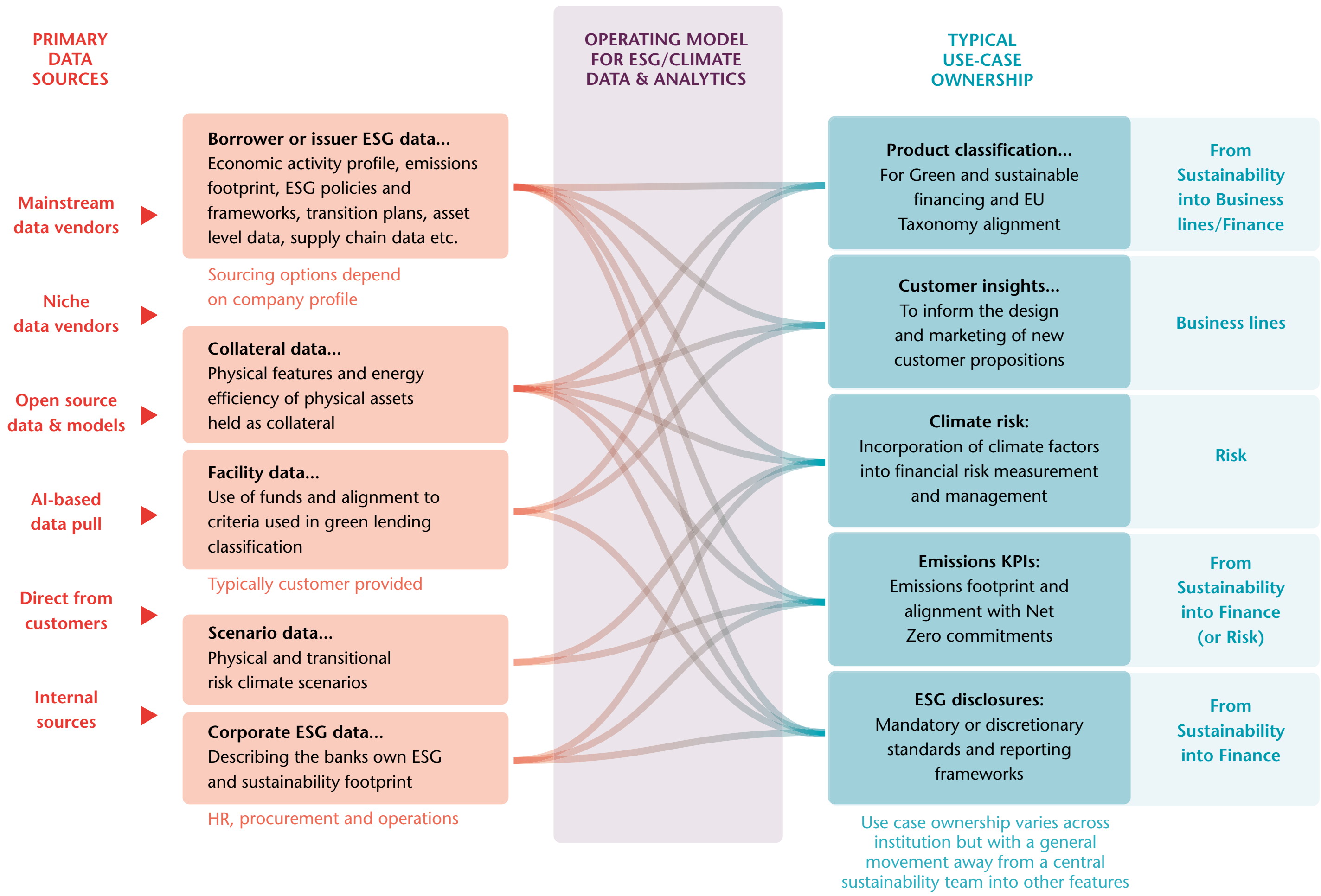
> **"There is a requirement to source ESG data from multiple different sources, and to consolidate this data in a way that is consistent, usable, controlled – but you cannot get all the ESG data you need from one place. It is suboptimal."**
>
> **Alex Frankl, Accenture Risk**

Making ESG data an enterprise-level asset will be a journey. Currently, the need to meet immediate business and regulatory demand means that tactical approaches to ESG data sourcing may be unavoidable in some cases. However, the leading financial institutions are increasingly investing in enterprise ESG data solutions – aimed at creating a 'single source of the truth' to serve the requirements of multiple business lines more efficiently and to build expertise in this emerging domain in-house.

As ESG data becomes more integral in business decision-making, we could see regulators approach ESG data governance in a manner similar to that of risk data aggregation and reporting. An BCBS239 principles equivalent for the ESG space, covering data governance, architecture, accuracy, and quality, could be on the regulatory horizon.

Whether to anticipate regulatory trends or to address the increasing business criticality of ESG data, financial institutions need to get on the front foot and consider their sustainability and digital agenda in tandem. This calls on firms to establish the right data behaviour and accountabilities at the outset and futureproof their technology architecture against future developments in ESG data volumes, complexity, and fluidity.

CHART 2
Developing operating models for ESG data and analytics



CONCLUSION

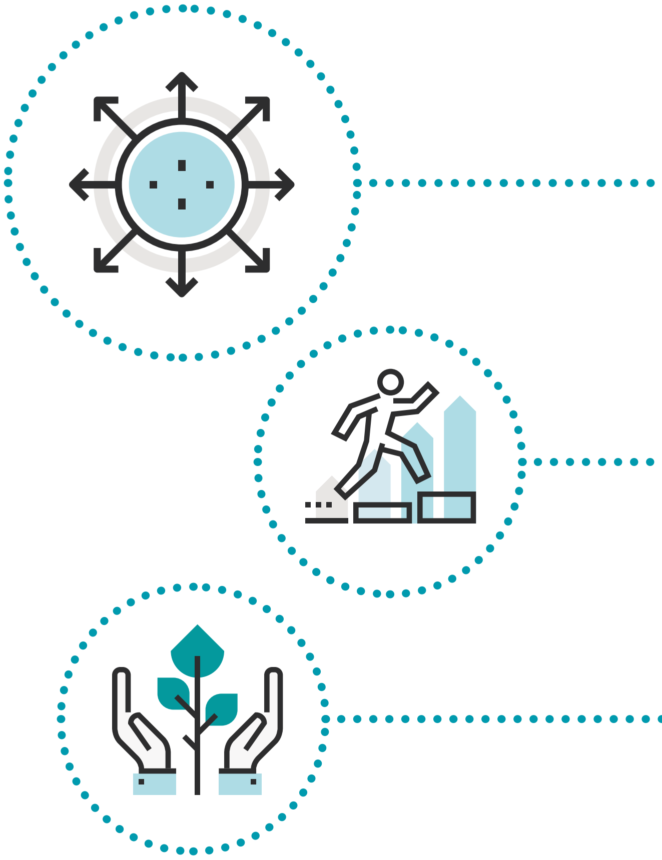
The IRSG commissioned this report in the summer of 2021. Its motivation in doing so was a recognition of the expected growth in the importance of ESG Ratings within the wider ESG landscape. Following the publication of the IOSCO Consultation on ESG Ratings, and its report published in November 2021, the significance of ESG Ratings is set to leap up the agenda for regulators and policymakers in the year ahead.

In our report, we have outlined where the current ESG Ratings market is, and what challenges it faces in its present state – including transparency of methodology, clarity of purpose behind ESG Ratings products, availability of data disclosure and potential conduct risks. Given the nascent nature of the ESG Ratings market, it is unsurprising that challenges are emerging as demand for ESG Ratings increases at such a rapid rate. However, given that this demand is set only to accelerate further in the coming year, it is paramount that these challenges are addressed.

This report has made recommendations of the steps that industry, regulators and policymakers can all begin to take to mitigate these challenges and futureproof the integrity of the ESG Ratings Market, so to ensure it is fit for purpose and best meets the needs and expectations of its end-users.

It has become increasingly clear across the research process that for firms to meet the data needs of the ESG Rating providers, they will need to continue to accelerate their own digital transformation processes. Centralising ESG data disclosure at a company level, in line with the anticipated ISSB standards expected later in 2022, will be another significant step forward in improving clarity and understanding in the purpose behind ESG Ratings.

The IRSG believes that ESG Ratings will play an integral role within the wider global sustainable finance effort. However, as the market matures in the coming years, it is likely that greater regulatory and policymaker interest and oversight will further shape the ESG Ratings market. Recognising and responding to this interest now – and making any changes required - will best position the market to be able to deliver on its potential in the future.



APPENDIX

TABLE 3
Regulatory and voluntary initiatives to date – key milestones

DATE	Initiative / Milestone:
1997	Global Reporting Initiative (GRI) – oldest and most popular. Used by 40% of US companies and 60% of European companies in their sustainable reporting.
2007	Carbon Disclosure Standards Board (CDSB) – the CDSB framework is a tool for companies to disclose climate change-related information in financial reports.
2008	Workforce Disclosure Initiative – provides greater disclosure on workplace practices, backed by 100 investors representing $12 trillion in assets.
2011	Sustainability Accounting Standards Board (SASB) – provides industry metrics that track the impact of environmental issues on company accounts. Now used by 25% of S&P 500.
2017	Task Force on Climate-related Financial Disclosures (TCFD) – the G20 Financial Stability Board backed task force is a set of guidelines which assesses a company's exposure to climate risk.
	The Non-Financial Reporting Directive – companies with over 500 employees are required to report on their E and S challenges (later updated to increase the focus on climate-related business risks and opportunities.
2019	NFRD Guidelines Supplement – EU updated its guidelines to integrate TCFD recommendations on non-financial reporting in annual reports for over 6000 companies.

DATE	Initiative / Milestone:
2020	The World Economic Forum (WEF) report – a follow up to the consultation, Towards Common Metrics and Consistent Reporting of Sustainable Value Creation. The project, developed a community of over 120 global CEOs seeking to improve the ways that companies measure and demonstrate their contributions towards creating more prosperous, fulfilled societies and a more sustainable relationship with our planet.
MARCH 2021	Sustainable Finance Disclosure Regulation (SFDR) – requires transparency on how ESG risks are being integrated in the investment decision and how adverse sustainability factors are being considered. It also requires transparency on sustainability objectives, processes and achievements of financial products promoted as ESG or sustainable. By the end of 2022 investment funds must also disclose adverse impacts.
NOVEMBER 2021	International Sustainability Standards Board (ISSB) – intends to develop standards that result in a high quality, comprehensive global baseline of sustainability disclosures for the financial markets. The ISSB will bring together the existing reporting initiatives (including CDSB, SASB and TCFD) to build a single set of global norms which will cover all ESG factors but focus on climate risk initially.
	Taskforce on Nature-related Financial Disclosures (TNFD) – a risk management and disclosure framework for organisations to report and act on evolving nature-related risks. The initiative aims to support a shift in global financial flows away from nature-negative outcomes, toward nature-positive outcomes.
DECEMBER 2021	IOSCO report on ESG Ratings and data providers – following consultation in Summer 2021
2022	OECD to develop ESG risk policy framework – including policy recommendations on climate transition definitions, metrics and their use in climate risk due diligence for institutional investors
APRIL 2022	UK to mandate climate disclosures for largest companies, in line with recommendations from the TCFD.

The IRSG wishes to thank the members of the workstream which have overseen the production of the Report. Please note that this report should not be taken as representing the view of any individual firm which took part in the discussions:

Accenture
AFME
Allen & Overy
Aviva
BlackRock
Bloomberg
BNP Paribas
Citigroup
Deloitte
Fidelity International
Gibson Dunn
Goldman Sachs
HSBC
Hogan Lovells
ICE
The Investment Association
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Moody's
Nomura International
PA Consulting
Rathbones Group PLC
Rothschild
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The International Regulatory Strategy Group (IRSG) is a practitioner-led group comprising senior leaders from across the UK-based financial and related professional services industry. It is one of the leading cross-sectoral groups in Europe for the industry to discuss and act upon regulatory developments.

With an overall goal of promoting sustainable economic growth, the IRSG seeks to identify opportunities for engagement with governments, regulators and European and international institutions to advocate an international framework that will facilitate open and competitive capital markets globally. Its role includes identifying strategic level issues where a cross-sectoral position can add value to existing views.

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