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London, 1st September 2021

Re: CDP's response to IOSCO consultation report on Environmental, Social and Governance (ESG) Ratings and Data Products Providers

Dear Members of the IOSCO Board,

CDP welcomes the opportunity to respond to the IOSCO consultation report on Environmental, Social and Governance (ESG) Ratings and Data Products Providers. The annex to this letter contains CDP's feedback on the report and recommendations suggested.

As a ESG data products and ESG rating provider, CDP has strived over the past two decades to create a reliable and transparent system to benefit society and sustainable investment decisions. CDP understands that a big challenge in enabling sustainable investment is the availability of high-quality corporate data, which is required as an input for decisions making. Data availability and quality remains low, especially for assets in emerging markets, as well as smaller and privately held companies. CDP is trying to assuage data challenges for the market by driving structured, comparable disclosure on environmental impact and by providing high quality modelled datasets for the largest and most polluting companies globally, along with a public methodology of estimation techniques. It could be helped further by governments mandating disclosure from companies.

CDP believes that it is necessary to address the need for guidance and regulations for ESG ratings and data products providers and CDP supports IOSCO's work on this topic. CDP remains available to support and contribute, for example, by providing access to the CDP data and insights covering 20 years of corporate environmental disclosures as well as share the lessons learned from our experience in developing our transparent scoring methodology and disclosure platform.

We look forward to engaging further on this work with you.
Sincerely,

Pietro Bertazzi
CDP Global Director, Policy Engagement and External Affairs

Annex: CDP RESPONSE TO CONSULTATION REPORT

See below CDP's feedback provided on the different sections and recommendations from the consultation report.

Introduction:

- Regarding '*Communication between ESG ratings and data products providers and companies',* CDP believes the question on who selects and pays for the services should be addressed through recommendations as well. The selection of a certain rating provider should be based on principles such as robustness of rating methodology, transparency, sector relevancy, reach etc. It should be avoided that companies cherry pick the rating organization that is more likely to give a higher score. In that sense, investors should probably be the ones that select the rating organization(s) a company needs to respond to (based on such principles) and pay for receiving an accurate rating.
- Concerning '*5.1 Proposed Recommendations for IOSCO and IOSCO Members concerning ESG ratings and data products'*, CDP suggests that ESG ratings should strive to be based on quantitative science-based metrics and benchmarks, e.g. 'company Scope 1+2+3 emissions aligned with a 2C/1.5C Sector Decarbonization pathway', rather than 'emissions slightly reduced compared to last year'; 'CAPEX+OPEX spent on low-carbon technologies as defined in the EU taxonomy aligned with the investment needed for that sector pathway (see ACT O&G assessment)', rather than 'some increase in CAPEX+OPEX spent on low-carbon technologies as defined by the company compared to last year'. CDP suggests that absolute science-based benchmarks should be the cornerstone of robust ESG rating methodologies, wherever possible.

Recommendation 1:

- Concerning IOSCO's role in developing standards and code, CDP supports IOSCO playing a role in this field and encourages IOSCO to align with existing rules in specific jurisdictions, including the EU CRA regulation. Specifically, CDP believes that IOSCO could support the efforts on defining a global definition of ESG data and scoring providers. CDP is available to support and inform this endeavour by sharing lessons learned in establishing transparent scoring methodology and data services.

Recommendation 2:

- On the '*form of validation'*, CDP suggests that validation from the company itself would be welcomed as well. CDP ACT scoring method, for example, bases the assessments on publicly available information, and then gives the opportunity to the company to validate the data they have found before issuing a rating. Despite the fact that companies may not answer, CDP believes that this should be best practice.
- Regarding the transparency on the source of the data, there may be an issue with the 'reporting year'. CDP evaluates companies on data relative to the reporting year, not to the most up to date information, e.g. if a company is reporting a SBT set in 2021, but their reporting year is 2020, they will not get credit for this until 2022 when their reporting year

will be 2021. ESG rating providers should be transparent on which reporting year their rating refers to, and this should be considered when comparing ratings from different rating providers.

- On the element of '*sufficient resources to carry out high-quality ESG-related assessments*', CDP suggests spelling out that there should be sufficient resources for quality assurance of ratings provided. Testing automatic tools/coding that implement the rating methodology and ensuring consistency in rating qualitative information are crucial.

Recommendation 5:

- Data rating providers should be asked to be transparent about when a rating is not publicly available. For example, CDP has public and private scores. Rating providers should be transparent on why a score is not available publicly (if this is relevant to their methodology).
- On '*the Information regarding methodologies that ESG ratings and data products providers may wish to consider publishing*', CDP complies with the list and encourage making this common practice. CDP scoring is fully independent from the 'consulting arm' of CDP e.g. CSC Reporter Services. CDP scoring methodologies are fully transparent and publicly available on the CDP website. Conflict of interest between scoring partner organizations hired by CDP and disclosing companies are mitigated every year by ensuring those disclosing companies are scored either internally or by a scoring partner organization with no conflict of interest with the disclosing company. Lastly, third-party verification of datapoints disclosed by companies is strongly incentivized in the CDP scoring methodology.
- Concerning '*using non-public information only for purposes related to their ESG ratings and data products or otherwise in accordance with their confidentiality arrangements with the company'*, CDP proposes that only publicly available information should be used to assess a company and provide a rating. Scoring providers should steer away from providing assessments based on confidential information provided by the company to the ESG rating as this less verifiable and more prone to manipulation. This process may be opposed to the transparency principle.

Recommendation 7:

- On the '*evaluation of the criteria utilised in the ESG assessment process*' CDP suggests adding 'Including if they are science-based, quantitative, verifiable, and aligned with existing reputable standards and taxonomies (e.g. GHG Protocol, AFi, CEO Water Mandate, TCFD, EU taxonomy, etc.)'.

Recommendation 8:

- CDP would advise to clarify the definition of an '*effective outcome'*. CDP would suggest to rather refer that the outcome should be based on accurate facts. The aim of ESG ratings and ESG data products is to help make more informed decisions to have a positive impact on society and the environment.

Other comments

- CDP would like to propose additional recommendations to be considered including:

- Regulators should require all ESG rating providers to be registered and supervised by a public authority, especially as providers that are currently not regulated as Credit Rating Agencies, or similar public authorities.
- Smaller ratings providers could be exempted from some of the requirements placed on larger providers.