

Data for Public Good

Steering the Role of ESG Ratings and
Data Products Providers

July 2023



Executive summary for policymakers

By consolidating and evaluating information, ESG ratings and data products providers aim to provide market participants with the means to assess and compare companies' ESG performance. The role and influence of these assessment tools have increased significantly in capital markets.

According to [The Investment Association](#), in the United Kingdom alone, almost half of the £10 trillion worth of assets under management have integrated ESG into the investment process. A recent [report](#) published by ERM indicates that 94% of investors use ESG ratings and data products at least once a month, and 47% use multiple times per week.

ESG ratings and data products have proliferated in prompt response to investors' increased demand for ESG data and its subsequent assessments. However, significant shortcomings in their objectives and methodologies for data gathering, rating, and benchmarking have been identified.

CDP's recent report *Data for Public Good – Steering the Role of ESG Ratings and Data Products Providers* discusses the shortcomings associated with ESG ratings and data products, and it compares how policymakers are addressing these issues worldwide. The report also provides a series of recommendations for policymakers and regulators on how to improve the regulatory architecture of ESG ratings and data products.

In the United Kingdom alone, almost

50%

of the £10 trillion worth of assets under management have integrated ESG into the investment process.



Investors use of ESG ratings and data products:

94%

at least once a month,

47%

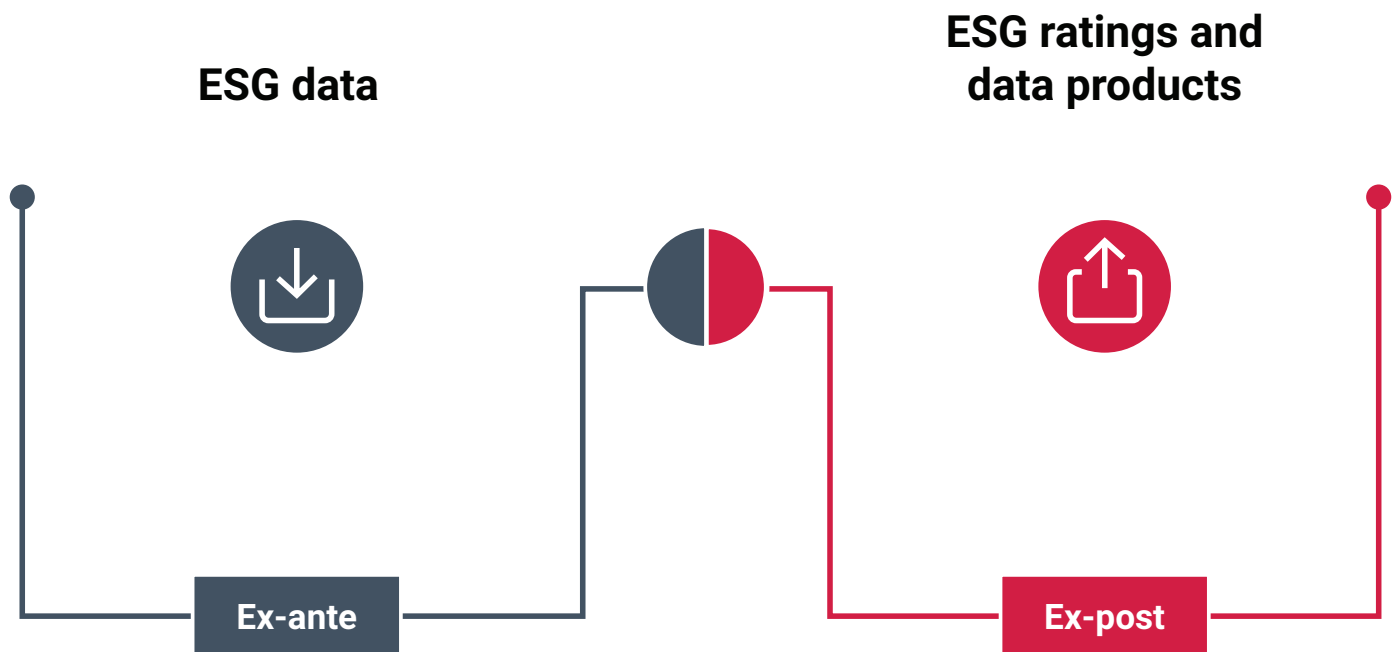
multiple times per week.



Shortcomings associated with ESG ratings and data products

Shortcomings associated with ESG ratings and data products have been categorized by CDP into *ex-ante* and *ex-post* challenges.

- ▼ **Ex-ante challenges:** These are challenges often related to an imperfect ESG data environment. They are considered ex-ante because even though they exist despite ESG ratings and data products, their existence directly impacts the construction of these tools. They include issues with the transparency, comparability, and availability of ESG data.
- ▼ **Ex-post challenges:** Refer to challenges inherent in the construction and provision of ESG ratings and data products, such as the diversity of methodologies designed for these tools, the lack of transparency around these methodologies, conflicts of interest, coverage and costs, and interactions between providers and rated entities.



Policy landscape

The exponential growth of ESG ratings and data products, coupled with concerns about their shortcomings, have led some policymakers and regulators to take a closer look at the functioning of the market.

In 2021, IOSCO issued a set of recommendations in its [Environmental, Social and Governance \(ESG\) Ratings and Data Products Providers Final Report](#) focused on the principles of good governance, transparency, systems and controls, and management of conflicts of interest. IOSCO's recommendations have served as a foundation for jurisdictions to consult on this topic, as well as to develop primarily two types of policy initiatives: voluntary codes of conduct and regulatory frameworks for ESG ratings and data products.

The map below depicts different geographies that are studying, drafting, or already implementing policy initiatives in the space of ESG ratings and data products.



Conclusion and recommendations

ESG ratings and data products can support decision-making towards global environmental agendas, such as the Paris Agreement, the Sustainable Development Goals, and the Global Biodiversity Framework. Therefore, to ensure that these tools are used for public good, a series of improvements in the space of ESG data and analytics must occur.

[**Download the Full Report**](#)

Recommendations to address ex-ante challenges

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

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

Recommendations to address ex-post challenges

Adopt common baseline of definitions

- ▼ Regulators should pursue a common baseline to define ESG ratings and data products.

Ensure territorial scope does not pose conflicting requirements for users and providers of ESG ratings

- ▼ Regulatory frameworks should adopt similar approaches towards their territorial scope to avoid market confusion and contradiction across policy initiatives.

Foster transparency of methodologies of ESG ratings and data products

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

Ensure good governance to manage and solve possible conflicts of interest

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

References

European Commission, "Proposal for a Regulation of the European Parliament and of the Council on the Transparency and Integrity of ESG Ratings Activities," (2023): 1-77. https://ec.europa.eu/finance/docs/law/230613-proposal-sustainable-finance_en.pdf.

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

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

HM Treasury, "Future regulatory regime for Environmental, Social, and Governance (ESG) ratings providers," (2023): 1-30. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1147458/ESG_Ratings_Consultation_.pdf.
IOSCO, "Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report," (2021): 1-53. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

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

The Investment Association, "Investment Management in the UK 2021-2022," (2022): 1-116. <https://www.theia.org/sites/default/files/2022-09/Investment%20Management%20Survey%202021-22%20full%20report.pdf>

The SustainAbility Institute by ERM, "Rate the Raters 2023 – ESG Ratings at a Crossroads," (2023): 1-56. <https://www.sustainability.com/globalassets/sustainability.com/thinking/pdfs/2023/rate-the-raters-report-april-2023.pdf>

SustainServ, "ESG Ratings and Rankings: why they matter and how to get started", (2020): <https://sustainerv.com/en/insights/esg-ratings-and-rankings-why-they-matter-and-how-to-get-started/>

Authors

Pietro Bertazzi

Global Director, Policy
Engagement & External Affairs

Flávia Bedicks

Manager, ESG Data Policy &
Regulations
flavia.bedicks@cdp.net

Top Contributors

Éilis O'Connell

Evan Guy

Jennifer Ewah

Jonathan Moles

Joseph Gualtieri

Manveer Gill

Pietro Moro

Tatiana Díaz

Acknowledgements

CDP would like to thank all ESG ratings and data products providers, users, and policymakers who have contributed to this report, whether by accepting to be interviewed or by joining the Roundtable event conveyed in March 2023. A special thanks go to the Future of Sustainable Data Alliance for all their support. We are grateful for the generous contributions offered by the Alternative Investment Management Association, Clarity AI, CSRHub LLC, EcoVadis, ESG Book, the Institutional Investors Group on Climate Change, Nippon Life Global, Normative, S&P Global, Sustainalytics, the United Nations Environment Programme Finance Initiative, the United Nations Sustainable Stock Exchanges Initiative, and others who have remained anonymous.
