



TOPICS:

ESG RATINGS, DATA PRODUCTS PROVIDERS

SOURCE:



International Organization of Securities Commissions

IOSCO Calls for Oversight of ESG Ratings and Data Product Providers

Environmental, Social and Governance (ESG) Ratings and Data Products Providers

- **The use of environmental, social and governance (ESG) ratings and data products has grown considerably.**
- **IOSCO has sought to strengthen its knowledge by undertaking a fact-finding exercise** with ESG ratings and data products providers, users of ESG ratings and data products, and the companies that are the subject of these ESG ratings or data products.
- **The fact-finding exercise revealed that:**
 - **There is little clarity and alignment on definitions**, including on what ratings or data products intend to measure;
 - There is **a lack of transparency about the methodologies** underpinning these ratings or data products;
 - While there is **wide divergence within the ESG ratings and data products industry**, there is an uneven coverage of products offered, with certain industries or geographical areas benefitting from more coverage than others, thereby leading to gaps for investors seeking to follow certain investment strategies;
 - There may be **concerns about the management of conflicts of interest** where the ESG ratings and data products provider or an entity closely associated with the provider performs consulting services for companies that are the subject of these ESG ratings or data products;
 - **Better communication** with companies that are the subject of ESG ratings or data products was identified as an area meriting further attention given the importance of ensuring the ESG ratings or other data products are based on sound information.
- **IOSCO identifies potential areas for improvement** which in turn form the basis for **a series of proposed recommendations** for securities markets regulators as well as ESG ratings and data products providers, users of ESG ratings and data products and the companies that are the subject of these ratings or data products.
- **The recommendations are:**
 - **Regulators could consider focusing greater attention** on the use of ESG ratings and data products and the activities of ESG rating and data products providers in their jurisdictions.
 - **ESG ratings and data products providers need to issue high quality ratings and data products**, including publicly disclosed data sources, defined methodologies, management of conflicts of interest, high levels of transparency, and handling confidential information.
 - **Users of ESG ratings and data products could consider conducting due diligence** on the ESG ratings and data products that they use within their internal processes.
 - **ESG ratings and data products providers**, and entities subject to assessment by ESG ratings and data products providers, could consider **to improve information** gathering processes, disclosures and communication **between providers and entities subject to assessment.**

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