



Study on Sustainability- Related Ratings, Data and Research



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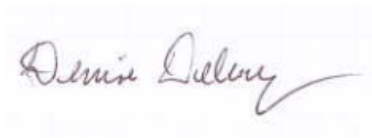
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Abstract

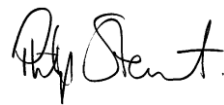
Europe leads the way globally on sustainable investing. In 2018, the total assets committed to sustainable and responsible investment strategies exceeded €12 trillion, representing 46% of the global total. The growth in global assets committed to sustainable strategies is forecast to continue over the next decade, as sustainable investing becomes fully integrated into asset management. A key requirement of forming sustainable investment strategies is access to high-quality sustainability-related data, ratings and research. In this context, this study describes the state of the play of the sustainability-related products and services market; establishes an inventory and classification of market actors, sustainability products and services available in the market; and analyses the use and quality of sustainability-related products and services by market participants. The study explores how the reliability and quality of assessment of sustainability-related data, ratings and research by third party providers can be enhanced and provides recommendations to stimulate demand and improve the quality of supply. This research is based on a combination of desk research and stakeholder engagement with various actors across the value chain. For the latter, stakeholders ranging from listed companies, to sustainability-related data, ratings and research provider, asset management and owners, industry experts and non-governmental organisations participated either through an online survey or in depth interviews.

Study on Sustainability-Related Ratings, Data and Research Final

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Executive Summary

Background and Development

The rapid growth in global assets committed to sustainable and responsible investment strategies experienced over the last decade is forecast to continue as sustainable investing becomes fully integrated into asset management. A key requirement of forming sustainable investment strategies is access to high-quality sustainability-related data, ratings and research. The corresponding growth in demand for sustainability-related products and services has led to an increasing number of players entering the market and an uptick in merger and acquisition activity as traditional financial services and research firms seek to expand their service offerings by buying up specialized sustainability-related product and service providers.

In Europe, sustainable investing has been practiced for at least two decades and the market is relatively mature in comparison to other regions. To date, the European Union has been the most ambitious regulatory authority on sustainable finance. The European Commission developed a comprehensive policy agenda on sustainable finance in 2018, comprising the action plan on financing sustainable growth and the development of a renewed sustainable finance strategy in the framework of the European Green Deal. It has established numerous regulations including the Non-Financial Reporting Directive (NFRD) and the EU Taxonomy Regulation among others.

At present, sustainability-related products and services are not regulated by public authorities, though a few specific regulations may apply to specific types of products. Self-regulatory initiatives and market standards have proliferated in recent years including responsible business conduct initiatives (e.g. UN Global Compact, UN Sustainable Development Goals), corporate disclosure initiatives (e.g. CDP, Sustainability Accounting Standards Board, Task Force on Climate-related Financial Disclosures) and responsible investing initiatives (e.g. the UN Principles for Responsible Investing).

Increasingly providers are offering an array of sustainability-related products and services including raw data, ratings and rankings, screening services, indices and benchmarks, and climate-specific products. With the exception of ISS which was acquired by Deutsche Börse AG in November 2020, the major providers are all currently headquartered in North America or the United Kingdom. This includes leading providers MSCI, S&P, Moody's, Fitch's, and CDP. All these have operations in the EU, due in part to the acquisitions of previously well-established EU headquartered providers such as Sustainalytics, Vigeo Eiris, Oekom and SAM. The leading providers all sell products to EU-headquartered investors and include EU companies in their coverage. There are also an estimated 30 to 40 other smaller providers of sustainability-related rating, data and research products and services domiciled in the EU.

Current Approach

The flow of information in market generally comes from companies through sustainability-related product and service providers to investors. Defining characteristics about this flow of information through various actors shape the market, and lead to specific pain points. The three areas of focus in this report are:

1. The flow of information about companies to sustainability-related product and service providers.
2. How sustainability-related product and service providers evaluate, package and sell that information.

3. How that information is used by customers (e.g. investors, benchmark administrators).

The Flow of Information on Companies to Sustainability-Related Product and Service Providers

Data sources utilized by providers across all of their sustainability-related products and services fall into three major categories: Data directly from the company covered, unstructured company data from alternative sources, and third-party data that has already flowed through a different provider. Though the primary source of information identified by most providers is self-disclosed company data, providers commonly utilize data from all three sources with distinctions depending on the methodology, approach and product or service offered.

Where providers are not able to get direct data, they will often estimate data. Across our findings the bulk of data estimation occurs in specific issue areas, such as carbon emissions, and in estimates of revenue that are affected by a particular sustainability-related issue.

Providers have various multi-step approaches to assuring the quality of the datasets they use, both in terms of errors, and timeliness of data updates, but companies and investors alike have expressed frustrations at lower data quality, and inaccurate information. Although several product and service providers engage directly with companies to gather primary data and information, to facilitate data verification, and to allow for error correction and grievance resolution, companies want to see more direct communications, greater engagement more meaningful dialogue with providers.

For companies, addressing multiple individual requests for data and information on sustainability-related performance from stakeholders can be time intensive and costly. There are a variety of stakeholders that request such information, including, but not necessarily limited to, business-to-business clients or customers, regulators, non-governmental organisations, industry associations, the media, local communities, research bodies, shareholders, investors and sustainability-related ratings, data, ranking and benchmarking providers. Investor and sustainability rating, data and research providers form only part of this demand. Based on the survey conducted for this report, companies spend an average of 316 days per year completing their own company sustainability reports and other disclosures, and an average of 155 days per year responding to and managing sustainability-related ratings and ranking providers. This would equate to approximately one full time employee equivalent for sustainability reporting and disclosures and half a full time employee equivalent to respond to requests from sustainability-related rating, data and research providers. Companies also report that certain rating questionnaires such as CDP or the SAM CSA can take upwards of 300 hours or approximately 40 person days to complete each.

How Sustainability-Related Product and Service Providers Evaluate, Package and Market Information (through the Lens of Ratings Products)

When looking at the development of ratings products, provider methodologies follow three broad steps: 1) determining which indicators of sustainability exposure or performance are most material to the sector in question, 2) gathering and assessment of data, and 3) scoring and weighting the data points and calculation of the rating. Providers typically update those company ratings on an annual basis, although some are starting to update more frequently as new technology makes those processes more efficient, and more frequent updates can provide a competitive distinction. The majority of providers are also undertaking methodology reviews on an annual basis.

Sustainability-related rating providers measure, weight and score company sustainability risk and performance in different ways. This results in comparability issues of ratings across providers for the same target company even with similar starting data points.

There are also three key types of bias typically encountered by sustainability-related ratings providers. The first, and most commonly referenced, is company size bias, where larger companies may obtain higher sustainability-related ratings because of the ability to dedicate more resources to non-financial disclosures. Second is geographical bias, where there is a geographical bias toward companies in regions with high reporting requirements. Third is industry bias, where sustainability-related ratings providers oversimplify industry weighting and company alignment.

This bias and the variation that occurs across methodologies contribute to weak correlation or divergence across scores from different companies.

How Sustainability-Related Products and Services Are Used by Customers

Almost all asset managers now receive some of their sustainable investment information via sustainability-related rating, data and research providers. The use of sustainability-related data has moved beyond solely the large asset managers, who have the resources to subscribe to multiple providers, to a wider audience through the use of data aggregators such as Bloomberg, which give access to multiple sources of sustainability-related ratings and data, in addition to and detailed sustainability-related metrics to all asset managers that subscribe to the Bloomberg Terminal service.

Benchmark administrators are divided between those that use in-house teams to gather data and produce the ratings that underpin benchmarks (e.g. FTSE, MSCI) and those that outsource such collection to third parties (e.g. Solactive outsources to ISS; Stoxx outsources to Sustainalytics). Importantly, the nature and extent of research required depends on the type of products that the benchmark administrator seeks to offer in respect of ESG.

Asset owners' activities in sustainable investment tend to focus on asset allocation, manager selection and monitoring, reporting & communications, and industry & public policy activity. Some asset owners have in-house investment capacity while others outsource entirely to external asset managers. As a result, their use of sustainability-related ratings, data and research differs significantly. In general, they tend to need portfolio-wide analytics rather than single stock data, research or ratings.

The Views of Stakeholders

Asset managers and asset owners report that the collection and aggregation of data is a valued service, largely due to lack of internal capacity to conduct such research. They also report that companies do not publish sufficient or comparable data and that sustainability-related rating, data and research providers do not always cover material issues, focus more on providing ratings rather than data (which is of greater value to them), and are backwards looking in their analysis.

When asked how sustainability-related products and services could better meet their needs, asset managers, asset owners and benchmark administrators responded with some clear themes. They would like greater transparency, more focus on sector-specific material issues; a focus on product impacts and actual performance, and less on company policies and disclosures; more raw data, better data quality and greater consistency rather than singular ratings; stronger links to financial materiality and a better insight into associated financial risks for companies.

Companies identified several areas effectively assessed by sustainability-related products and services: numerical or measurable data points; environmental topics; areas where there is good company engagement between provider and the company being assessed; and reporting. Areas less accurately represented by sustainability-related products and services include those that require a higher degree of qualitative interpretation such as governance policy, processes, investment; and some social issues, including stakeholder engagement, human rights, labour practices, community and training and development.

The frustrations reported by companies are that sustainability-related rating, data and research providers do not gather and process data and information in a timely, reliable or efficient manner; that providers' methodologies are opaque and do not sufficiently take into account company context; that providers make errors (and are slow to correct them) and that engagement with multiple providers is time-consuming. The majority of reporting companies believe sustainability exposures and practices are only moderately reflected by sustainability-related rating, data and research providers, and overall are frustrated by a lack of transparency and comparability across providers. In addition, they state that most asset managers do not ask sustainability oriented questions during their regular meetings with company management.

Sustainability-related rating, data and research providers report that companies do not publish sufficient reliable data to enable appropriate comparability and analysis, while at the same time asset managers demand increased breadth, depth, and quality of data.

All stakeholders commented that the market for sustainability related ratings, data and research is growing whilst at the same time there is consolidation as larger, US-headquartered financial services companies have acquired the leading specialist sustainability-related rating, data and research providers; that there are some inherent conflicts of interest with the provision of sustainability-related products and services; and that there is a need for greater transparency across the industry in terms of methodology and disclosure as to how sustainability-related ratings, data and research providers assess performance.

Conclusions and Recommendations

There are several key issues identified that are considered to be obstacles to the further development of the market.

There is an **overall demand for greater transparency** of objectives sought, methodologies adopted and quality assurance processes in place by sustainability-related rating and data providers. For example, few providers disclose the underlying data sets, indicators or weightings applied. Sustainability-related ratings are the views of the provider undertaking the evaluation, against criteria they determine. Without full transparency of the methodology adopted, it is not possible to assess how effective they have been in evaluating a company, or whether the criteria selected align with the sustainability objectives of the user. A lack of transparency leads to the a lack of understanding as to what the rating represents and presents a risk that investors will take sustainability-related ratings at face value, without making their own judgements and considering whether and how well a rating helps the investor meet their sustainability investment objectives.

The **timeliness, accuracy and reliability** of the output from sustainability-related rating and data providers was a concern raised by companies and asset managers. Investors are demanding more data granularity and have high expectation on data quality, consistency and timeliness, so they can better integrate this into their own financial analysis.

This existence of **bias and low correlation** across sustainability-related ratings are broadly recognized across all market participants. The consequences of divergence, or low correlation, vary from bringing into question the credibility of sustainability-related ratings, to being an impediment to prudent decision-making aimed at moving capital to more sustainable investments – this being particularly the case when investors lack an appreciation of the limitations of sustainability-related rating and data products.

The potential for **conflicts of interest**, particularly associated with providers both evaluating companies and offering paid advisory services, was highlighted. Providers selling multiple products require an elevated and appropriate separation between departments to avoid potential conflicts of interest.

There is a need for a focus on **materiality** given the extensive breadth of topics covered, and resulting hundreds, if not thousands, of indicators used. The breadth and complexity of the data creates a large amount of 'noise' in assessments by sustainability-related rating and data providers, which can have the effect of overwhelming the signal resulting in truly material issues being lost amongst the detail. Companies and asset managers alike noted a lack of sufficient **contextual understanding** of the industry covered by some sustainability-related rating and data analysts.

Company sustainability disclosures are considered to lack comparability, consistency and completeness, despite the growth in uptake of the numerous sustainability reporting standards that exist. The need for standardised reporting by companies so that investors and sustainability-related product and service providers can better assess performance is acknowledged across market participants.

A source of frustration is the overall lack of **engagement with and by companies** on sustainability-related issues, both in terms of insufficient meaningful direct communication with investors on these issues, and the lack of dialogue (and the inability to correct errors) with sustainability-related rating and data providers. It was also noted that companies, and other market participants, perceive that they receive 'hundreds of questionnaires on sustainability and ESG from investors'. However, very few sustainability-related rating, data and research providers that have any material influence on the investment value chain rely on issuing questionnaires.

There is a lack of **clear and consistent terminology** used and a need for clearer and standardized definitions for sustainability-related products and services. This includes key terms such as ESG, sustainability and responsible investment. There is no consensus on a set of standards and principles for sustainability-related products and services, or how to measure and verify the implementation of them.

Recommendation	Issues addressed
1. The disclosure of sustainability-related rating methodologies , including key factors such as the specific assessment criteria, sources of data, rationale for weighting, and any standards or guidelines considered.	<ul style="list-style-type: none"> • Transparency
2. The development and application of industry standards for sustainability-related rating and data products providers , including the establishment of a certification system and the appointment of an appropriate supervisory body. The industry standards would cover sustainability-related rating and data providers, and include elements such as the overall objectives of the rating and data provider, appropriate governance structures and codes of conduct, means of engagement with companies, the process for correcting errors and updating assessments, the transparency of methodologies, the consideration of materiality and risk of bias.	<ul style="list-style-type: none"> • Transparency • Timeliness, Accuracy and Reliability • Bias and Correlation • Conflicts of Interest • Materiality and Contextual Understanding • Engagement with and by Companies • Clear and Consistent

	Terminology
3. The communication of sustainability-related ratings, data and research with target companies , including requiring that this is shared free of charge and restricting communication of outputs ahead of publication.	<ul style="list-style-type: none"> • Bias and Correlation • Conflicts of Interest • Engagement with and by Companies
4. Require sustainability-related rating, data and research providers to issue a purpose and limitation statement for published sustainability-related rating, data and research to users, order to provide clarity on the objectives of the product and any limitations that are considered to apply.	<ul style="list-style-type: none"> • Transparency • Bias and Correlation • Materiality and Contextual Understanding • Clear and Consistent Terminology
5. Seek to ensure public disclosure of the management of conflicts of interest by sustainability-related rating data and research providers . Sustainability-related product and service providers should be required to publically disclose their policies and procedures for the prevention and management of potential conflicts of interest, or explain why they do not have such a process in place.	<ul style="list-style-type: none"> • Conflicts of Interest
6. Require disclosure in the form sustainability-related declarations by asset managers in relation to the application of sustainability factors in investment management practices, the integration of sustainability factors into the investment analysis of companies they own, a report on sustainability engagement action undertaken and the percentages of research spend on sustainability investment research. It is noted that this recommendation should be reviewed in light of the publication of the SFDR technical standards.	<ul style="list-style-type: none"> • Transparency
7. Take action to enhance company sustainability disclosures with the aim of improving the comparability, completeness, consistency and quality of data disclose. It is recognized that the Commission is already addressing this issue through the revision of the NFRD planned for 2021.	<ul style="list-style-type: none"> • Company Sustainability Disclosures
8. Provide clarity of terminology and support capacity building on sustainable finance and sustainability-related products and services for all market participants and stakeholders to address the need for greater consistency in key terms used and definitions applied, and improved awareness of sustainability-related products and services across market actors.	<ul style="list-style-type: none"> • Clear and Consistency Terminology

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Acronyms and Abbreviations

Acronym	Definition
ACCF	American Council for Capital Formation
ACT	Alliance for Corporate Transparency

ACWI	All Country World Index
Afep	Association of Large French Companies
AGM	Annual general meeting
AI	Artificial intelligence
AO	Asset owners
API	Application Programming Interface
AUM	assets under management
C3D	French Association of Sustainable Development and CSR Directors
CAGR	compound annual growth rate
CDP	formerly Carbon Disclosure Project
CDP-ACS	CDP's Activity Classification System
CDSB	Climate Disclosure Standards Board
Cliff	French association of Investor Relations
CRA	credit reporting agency
CSR	corporate social responsibility
DCF	discounted cash flow
DG-FISMA	European Commission's Directorate-General for Financial Stability, Financial Services and Capital Markets
DJSI	Dow Jones Sustainability Index
DJSI CSA	Dow Jones Sustainability Index Corporate Sustainability Assessment
EC	European Commission
EFAMA	European Fund and Asset Management Association
EFRAG	European Financial Reporting Advisory Group
ESG	environmental, social and governance
ESMA	European Securities and Markets Authority
ETF	Exchange-traded funds
EU	European Union
EUR	euro
Eurosif	European Sustainable and Responsible Investment Forum
FCA	Financial Conduct Authority
FSB	Financial Stability Board
FTSE	Financial Times Stock Exchange
GAAP	Generally Accepted Accounting Principles (US)
GHG	greenhouse gas
GICS	Global Industry Classification Standard
GISR	Global Initiative for Sustainability Ratings
GRI	Global Reporting Initiative
GSIA	Global Sustainable Investment Alliance
HSE	health, safety and environment
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IIF	Institute of International Finance
IIRC	International Integrated Reporting Council
IOSCO	International Organization of Securities Commissions
IRRI	Independent Research in Responsible Investment
ISS	Institutional Shareholder Services
JPMC	JP Morgan Chase
KPI	Key performance indicator
LBBW	Landesbank Baden-Württemberg
MEDEF	Movement of the Enterprises of France
MiFID	Markets in Financial Instruments Directive
MIT	Massachusetts Institute of Technology

MSA	media and stakeholder analysis
NFRD	Non-Financial Reporting Directive
NGO	Non-Governmental Organisation
PFZW	Pensioenfond's Zorg en Welzijn
PRI	Principles of Responsible Investment
S&P	Standard and Poor's
SASB	Sustainability Accounting Standards Board
SDG	UN Sustainable Development Goals
SRI	Sustainable and Responsible Investing
TCFD	Task Force on Climate-related Disclosures
UCITS	Undertakings for the Collective Investment in Transferable Securities
UK	United Kingdom
UN	United Nations
UNEP	United Nations Environment Programme
US	United States
USD	United States Dollars
WBCSD	World Business Council for Sustainable Development

As per the requirements of the terms of reference for the study, for the purposes of this study, the terms "sustainability" and "ESG" (environmental, social and governance) are used interchangeably. In addition, the term sustainability-related products and services is used to cover one or more types of sustainability-related performance ratings, data tools and investment research provided in the market. Likewise, 'sustainability-related product and service providers' means all types of sustainability products or research providers.

Introduction

I. Objectives of the Study

This study will allow the European Commission (EC) to better understand the use of sustainability-related products and services, and the reliability and quality of sustainability assessments ratings by third party providers, which will in turn help to reorient capital flows towards sustainable investment. In line with Action 6 of the Action plan on sustainable finance adopted by the Commission on March 2018, the objectives of the study are:

- Provide a state of play of sustainability-related products and services market (Part I);
- Identify and classify sustainability-related products and services, and their providers and explore the business models of sustainability-related product and service providers (Part II);
- Analyse the source and type of data used by sustainability-related product and service providers (Part III);
- Analyse the data assessment process and transparency of methodologies of ESG ratings (Part IV);
- Analyse the use of sustainability-related products and services by both investors and companies and reflect the points of view of investors and companies on the quality of existing sustainability-related products and services (Part V); and
- Provide the European Commission with recommendations and best practices to stimulate demand and improve the quality of supply (Part VI).

II. Methodology

In order to provide a data-driven approach and consider the views of the variety of market participants on sustainability-related products and services, the chosen approach for this study is based on a combination of extensive desk research and engagement with different stakeholders across the value chain. Findings and conclusions have been developed on the basis of triangulation and corroboration across a range of sources.

Desk-Based Research and Literature Review

A substantial element of this study is based on an extensive review of academic literature, market data, leading industry studies and online research completed between February and November 2020. This work forms a large part of the basis for the content of this study, complimenting the survey conducted for the study and the wider stakeholder engagement with structured interviews.

Market Participant Survey and Structured Interviews

The project team engaged with senior-level participants from across the sustainable investment industry, as well as senior representatives from listed companies and industry experts. This included senior-level engagement from the major sustainability-related product and service providers, asset managers, asset owners and other industry participants across 14 of the 27 EU member states.

Market participants were invited to contribute to the study via structured interviews with the project team and through an online survey launched in April 2020. The online survey and interviews covered 14 priority subject-areas as agreed with the EC: Relationship between sustainability and ESG; Fee structure; Differences in methodologies; Bias in coverage; Data sources; Data accuracy; Mind the gap (Usage of Ratings); Ratings correlation; Transparency of methodology and frequency of review; Advantages of transparency; Usage by benchmark administrators; Selection process and criteria for data, ratings and research; Participation activity and costs; and Factual error correction. In total 336 survey and interview questions were developed across the 14 subject-areas.

The online survey was open to all market participants. It was structured around the type of market participant and enabled respondents to answer the questions in a written form. The online survey website contained contextual information on each subject-area. Survey respondents self-selected which of the 12 different categories of respondent type they associated themselves with, as determined by their role in the sustainable investment value chain. The specific questions asked depended on which respondent types was selected, and respondents could choose to answer as multiple respondent types by submitting multiple responses. The online survey was open between April and July 2020. There was an open call for participants, and all the parties involved in the study (ERM, SustainAbility, SRI Connect and Hindsight Consulting) contacted relevant market participants from their networks to invite them to participate. The survey was also promoted through LinkedIn and various websites, including those of SRI Connect (which hosted the online survey), ERM and SustainAbility. Participants selected whether to respond to the online survey or request an interview.

In-depth interviews were conducted through video-conference calls. The questions from the survey were utilised as the basis for the interviews, and the output from the interviews were recorded by the survey team in the same survey form used for the online responses. Two rounds of interviews were undertaken. The first took place in April and May 2020 during which the majority of interviews were conducted. After processing and analysing the data in light of the desk research, a second round of specifically targeted interviews with key sustainability-related product and service providers, asset managers, asset owners and NGOs were conducted to review and confirm initial findings. These took place in August and September 2020.

Out of the 236 respondents, 38 stakeholders chose to share their views through an interview. The list of the participants by type is provided in the table below. All the respondents were from market participants active in EU member states and 125 of the respondents were themselves domiciled in an EU member state. A full list of the respondents is included in Annex 1 to this study report.

Table 1: Survey Participants by Type and Form of Engagement

	Interview	Survey	Total
Asset Manager	5	45	50
NGO	2	2	4
Asset Owners	2	9	11
Benchmark Administrator		5	5
Data Provider	3	6	9
Grant Funded Research Provider	2	3	5
Credit Rating Agency		10	10
ESG Rating Agency	4	20	24
Sell-Side Broker	2	6	8
Expert	5	40	45
Company	13	52	65

	Interview	Survey	Total
Total	38	198	236

Part I: The State of Play of Sustainability-Related Products and Services Market

1.1. Introduction

This part of the study provides an overview of sustainable investment and the sustainability-related product and services market. It includes:

- **Market Trends:** the growth of sustainable investment in Europe, and key trends observed in the market including the consolidation of the established sustainability-related product and service providers.
- **Sustainable Investment:** what sustainable investment means, the different sustainable and responsible investment strategies used and information required to make decisions.
- **The Sustainability Information Ecosystem:** who market participants are in the sustainability information ecosystem and how data and information flows among them. Which market regulations, market standards and self-regulated initiatives exist within the ecosystem and how participants are affected.

This section of the study is based on extensive desk-based research.

1.2. Market Trends

The practice of sustainable investing is rooted in investment philosophies from the 18th and 19th centuries which, guided by moral values, ethical codes or religious beliefs, in effect established non-economic parameters to screen investments. In the latter decades of the 20th century, socially responsible investing emerged as investors were galvanized by social issues, including apartheid in South Africa, and environmental and social disasters, such as the nuclear accident at Chernobyl, the Bhopal gas disaster and the Exxon Valdez oil spill. The first European socially responsible investment fund was launched in 1965 in Sweden (Aktie Ansvar Myrberg¹), but it was not until the 1990s, when the 1992 Earth Summit and the impacts of further environmental and social disasters became headline news, that sustainable investing began to mature.

In 2001, the European Sustainable and Responsible Investment Forum (Eurosif) was established. This was followed in 2004 by the coinage of the term ESG, or environmental, social and governance, in the landmark report "Who Cares Who Wins".² This report was the final product of an initiative between the United Nations (UN) Global Compact, the International Finance Corporation (IFC), the Swiss Government and 50

¹ Matthew Sherwood and Julia Pollard, *Responsible Investing: An Introduction to Environmental, Social, and Governance Investments* (London: Routledge, 2018).

² International Finance Corporation (IFC), *Who Cares Who Wins — Connecting Financial Markets to a Changing World*, June 2004, https://d306pr3pise04h.cloudfront.net/docs/issues_doc%2FFinancial_markets%2Fwho_cares_who_wins.pdf.

chief executive officers of financial institutions. The report argued that embedding ESG factors into capital markets is good for both business and society. A second report, produced by the UN Environment Programme (UNEP) and the Finance Initiative, the “Freshfield Report,” directly tied ESG to financial performance. These two reports were the catalyst for the 2005 release of the UN Principles for Responsible Investment (PRI). These principles, developed by 20 investors, outline the menu of possible actions where ESG issues can be incorporated into investment practices.³ PRI signatories, both asset owners and managers, have grown from 95 in 2006, to over 3 600 in 2020, representing asset managers with a total of USD 103.4 trillion assets under management (AUM), and asset owners with a total of USD 23.5 trillion AUM.

As noted in the biennial Global Sustainable Investment review by the Global Sustainable Investment Alliance (GSIA) in 2019, Europe⁴ has seen an 11% increase from 2016 to 2018 in terms of total assets committed to sustainable and responsible investment strategies, reaching €12.3 trillion.⁵ Mercer’s survey of 927 institutional investors controlling €1.1 trillion total assets, found that 89% of schemes surveyed consider wider ESG risks as part of their investment decisions, rising from 55% in 2019.⁶

Overall, Europe dominates the sustainable investment market, although estimates vary, with the GSIA 2019 report stating that 46% of global sustainable investing assets in 2018 were in Europe, and Morningstar reporting that the region is home to 76% of global sustainable funds and 81% of assets.⁷

European investors placed a record €120bn into sustainable funds in 2019, more than double the €48.8bn of net inflows gathered in 2018, according to Morningstar, largely in response to fears about the threats posed by climate change to the global economy.

The growth in sustainability investing has driven demand for company data on sustainability-related performance. To support this, a proliferation of reporting frameworks, guidelines, and more recently, regulations to standardize company disclosures have been developed.

Established in 1997, the Global Reporting Initiative (GRI) is one of the earliest ESG frameworks. It has the goal of promoting the transparency of company sustainability performance, resulting in more informed dialogue and decision-making.⁸ Other high-profile sustainability-related disclosure frameworks have been launched since GRI was released that address different aspects promoting and enabling informed dialogue and decision-making around sustainability issues. An example of this is CDP, a not-for-profit charity, which first focused efforts on carbon reporting in 2000, and then extended this to cover water, forestry and supply chain issues.

³ ‘What are the six Principles for Responsible Investment?’, About the PRI, PRI, <https://www.unpri.org/pri/about-the-pri>.

⁴ Throughout this report, ‘Europe’ refers to the continent of Europe (and all 50 sovereign states). When referencing the European Union (and the 27 member states) then the term ‘European Union’ or the abbreviation EU is used.

⁵ Global Sustainability Investment Alliance (GSIA), *Global Sustainable Investment Review 2018*, April 2019, http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf.

⁶ Madeleine Taylor, ‘Percentage of European Pension Funds Taking Climate Risks into Account Quadruples in 12 Months’, *News: ESG and Responsible Investing, Institutional Asset Manager*, 26 Aug 2020 <https://www.institutionalassetmanager.co.uk/2020/08/26/288965/percentage-european-pension-funds-taking-climate-risks-account-quadruples-12>.

⁷ Hortense Bioy, ‘Investors Back ESG in the Crisis’, *UK News, Morningstar*, <https://www.morningstar.co.uk/uk/news/202274/investors-back-esg-in-the-crisis.aspx>.

⁸ ‘Our Mission and History’, About GRI, GRI, <https://www.globalreporting.org/about-gri/mission-history/>.

In the last decade, further voluntary frameworks developed with and by investors and companies have gained significant traction and helped to focus disclosures on material issues and develop more cohesive and consistent datasets. The International Integrated Reporting Council (IIRC) has published the Integrated Reporting framework, which attempts to align financial and sustainable reporting among other aims. Two other standards of note include the Sustainability Accounting Standards Board (SASB) for industry-specific material key performance indicators and the Task Force for Climate Related Disclosure (TCFD) for climate-specific disclosures.

Most recently, in November 2020, SASB and IIRC announced plans to merge in mid-2021 into one organisation, the Value Reporting Foundation, to work towards a comprehensive reporting framework.⁹ The merger seeks to advance the drive to simplify the current landscape of corporate sustainability-related disclosure standards and frameworks, and it is possible that in the future other organisations will join the Value Reporting Foundation, such as The Climate Disclosure Standards Board.

The incorporation of these frameworks into methodologies of sustainability-related product and services providers is explored in Part IV: Methodologies.

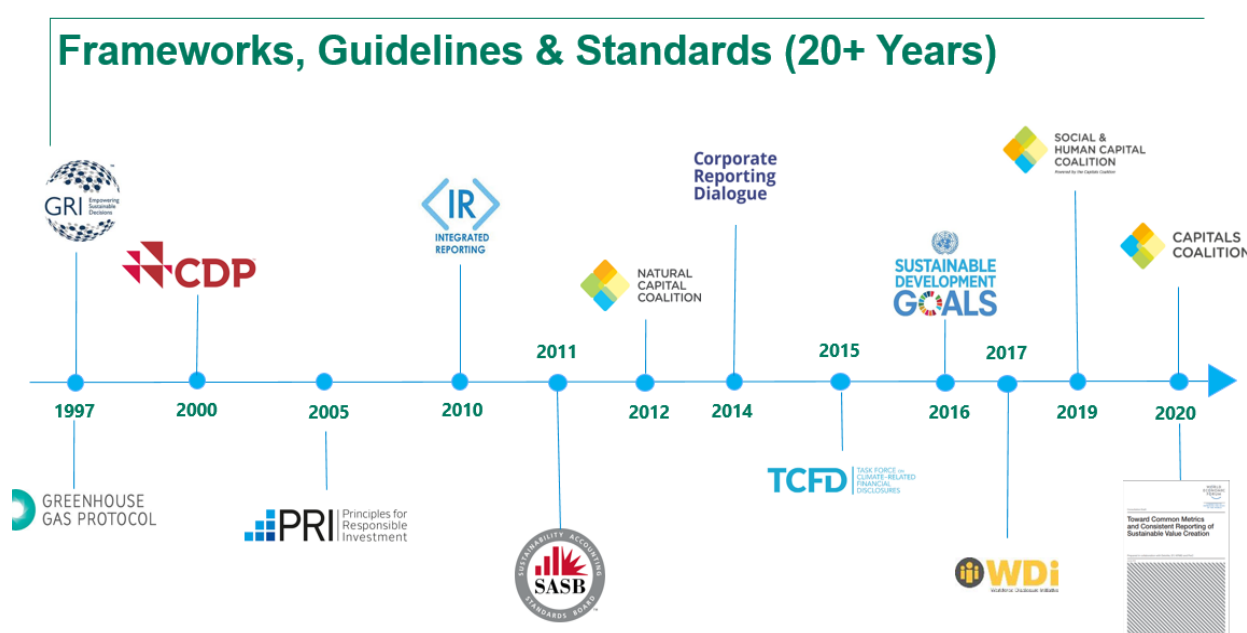


Figure 1: Development of Frameworks, Guidelines and Standards 1997–2020

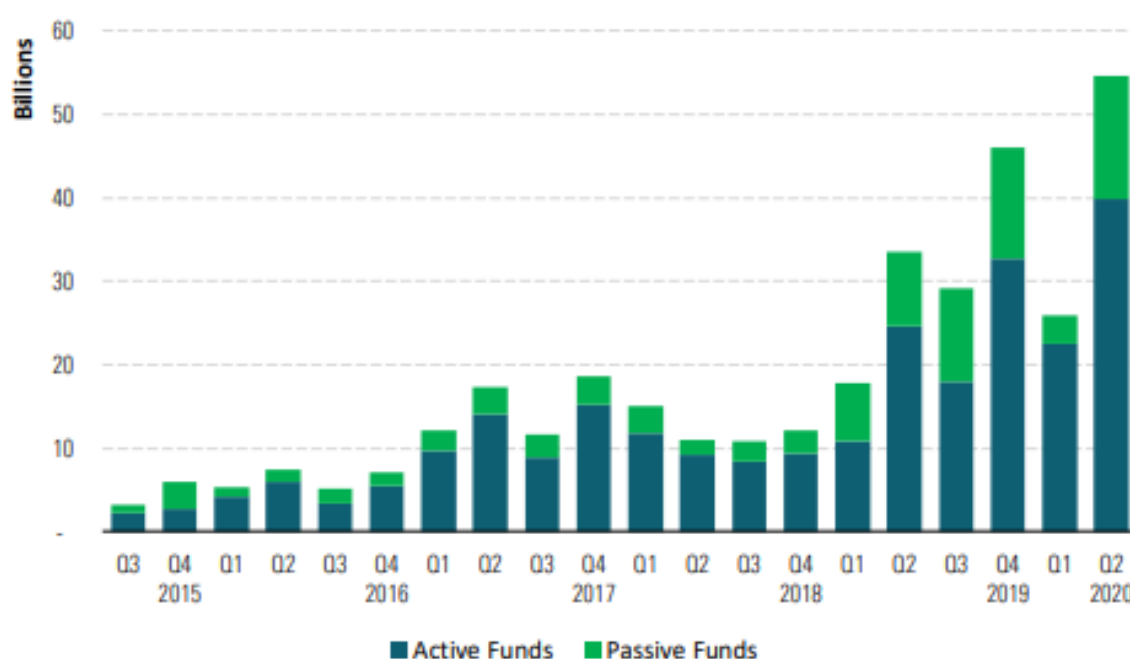
Financial products with a sustainability lens have also grown significantly in the last decade. A June 2020 Morningstar report found that sustainable funds control USD 1.06 trillion globally, with over 3 432 funds on the market. These consist of a mix of both newly minted funds, as well as revamped or rebranded existing funds. This represents

⁹ IIRC new release, November 2020, <https://integratedreporting.org/news/iirc-and-sasb-announce-intent-to-merge-in-major-step-towards-simplifying-the-corporate-reporting-system/>

an increase by 50% over the past three years in the total number of sustainable funds.¹⁰ The Morningstar report also highlights the growth in passively managed funds:

Europe is home to the largest and most comprehensive market for passively managed sustainable funds. More than half of all passive sustainable funds are domiciled in the region, and these collectively accounted for 76% of global assets under management as of the end of June 2020.

The growth of exchange-traded funds (ETFs) has also intersected with the growth in sustainable investing. A recent survey by JP Morgan Chase of 320 global professional investors found that 72% of respondents predict stronger growth in ESG ETFs.¹¹ On the active investing side, despite an exodus in equity funds, sustainable equity funds continued to see inflows in 2020.¹²



Source: Morningstar Direct, Manager Research. Data as of June 2020.¹³

Figure 2: Quarterly European Sustainable Fund Flows (EUR Billion)

¹⁰Alex Bryan et al, *Passive Sustainable Funds: The Global Landscape 2020*, Morningstar, 2020, https://www.morningstar.com/content/dam/marketing/shared/pdfs/Research/GSL_082520_Final.pdf?utm_source=eloqua&utm_medium=email&utm_campaign=&utm_content=24494

¹¹ George Geddes, 'European Investors Predict Rapid Growth in ESG and Thematic ETFs, Survey Finds', *Feature, ETF Stream*, 15 September 2020, <https://www.etfstream.com/features/european-investors-predict-rapid-growth-in-esg-and-thematic-etfs-survey-finds/>.

¹² Robin Wigglesworth, 'The ESG Revolution Is Widening Gaps between Winners and Losers', *Financial Times*, 3 February 2020, <https://www.ft.com/content/12bd616e-442b-11ea-a43a-c4b328d9061c>.

¹³ Hortense Bioy, 'European Sustainable Fund Flows: Q2 2020 in Review, ESG Fund Flows and Assets Hit New Highs as Markets Recover from the COVID-19 Sell-Off', *Morningstar Manager Research*, July 2020, <https://www.morningstar.com/content/dam/marketing/emea/shared/guides/European-Sustainable-Fund-Flows-Q2-2020.pdf>.

Alongside the growth in sustainable investing and company disclosures, the last decade has seen a rapid growth in demand for sustainability-related data, ratings and research products and services.

One example of a sustainability-related product that has seen major growth in recent years is ESG data. Opimas research estimates that total spending on 'ESG data' globally was USD 617 million in 2019, and it is expected to reach USD 745 million by the end of 2020.¹⁴ It is forecasted that growth in spending will result in revenue generated through 'data provisioning and benchmark licensing' ('ESG indices') to be around USD 240 million in 2020 and in excess of USD 300 million in 2021, and that combined with 'pure ESG data' ('ESG content') will be around USD 525 million in 2020, possibly exceeding USD 630 million in 2021. Europe accounts for 60% of this spending, and North America one third. Europe's dominance in the demand for ESG data is expected to strengthen due to the additional non-financial disclosure and transparency requirements being implemented by the European Commission. With sustainable finance and ESG investing becoming a mainstream phenomenon, the Opimas report finds that 'the ESG data market is flourishing around the globe, bolstered by the increasing demand for ESG data and the responsive offerings developed by a growing number of providers'.¹⁵ The Opimas report also acknowledges the changing landscape, with several larger providers acquiring smaller firms over last few years, but the overall the number of providers growing, and they are diversifying their offerings.

Demand for sustainability-related investment products has grown so quickly that a recent report by the UN PRI found that in France, as across many jurisdictions, current demand for 'ESG products' outweighs supply, indicating that the market has not reached a saturation point yet.¹⁶

Amid increasing demand, more players are entering the growing sustainability-related products and services market, which is leading to increased merger and acquisition activity as traditional financial data and research providers and credit ratings providers seek to expand their service offerings by buying up specialised sustainability-related product and service providers.

Figure 3 below outlines the major mergers and acquisitions in the last decade. In the last year alone, Moody's acquired French-based Vigeo Eiris, S&P Global acquired the ESG ratings and benchmarking business of RobecoSAM (having acquired a controlling interest in Trucost 3 years earlier), and Morningstar purchased Sustainalytics. The entry of these larger financial industry players into the sustainability-related products and services industry suggests that these organisations view sustainability-related ratings, data and research products as strategically important and profitable activities. It is notable that the four significant acquisitions referenced above are all by US-headquartered credit rating providers or financial services firms. Indeed, **prior to the acquisition in November 2020 of a majority stake in ISS by Deutsche Börse AG (an international exchange organisation headquartered in Frankfurt, Germany), there were no major sustainability-related product and service providers with**

¹⁴ Anne-Laure Foubert, *ESG Data Market: No Stopping Its Rise Now*, Opimas, March 2020, <http://www.opimas.com/research/547/detail/>. Note that Opimas uses a broad definition of ESG Data to include 'ESG content' and 'ESG indices'.

¹⁵ Anne-Laure Foubert, *ESG Data Market: No Stopping Its Rise Now*, Opimas, March 2020, <http://www.opimas.com/research/547/detail/>.

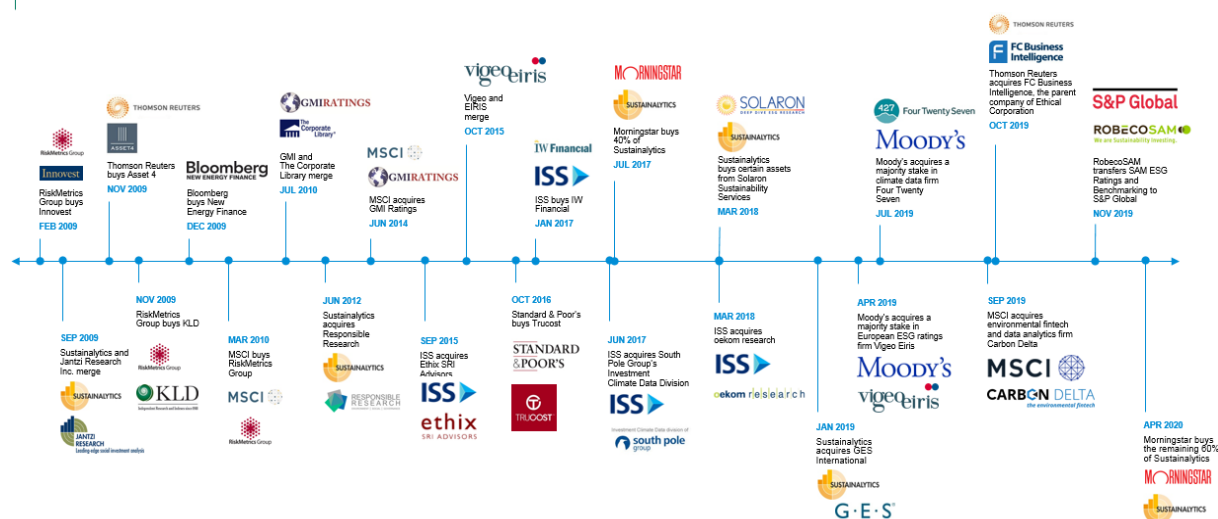
¹⁶ Matthew Orsagh, 'Asset Owners Experiencing Shortage of ESG Products Meeting Expectation', PRI Blogs (blog), PRI, 14 November 2019, <https://www.unpri.org/pri-blogs/asset-owners-experiencing-shortage-of-esg-products-meeting-expectation/5109.article>.

parent company headquarters in the EU, although all have significant operations in the EU. Three of the major providers, Vigeo Eiris, Sustainalytics and ISS-oekom, have divisional headquarters in France, the Netherlands and Germany respectively, reflecting their heritage. Vigeo Eiris and Sustainalytics are now under the ultimate control of US-headquartered parent companies, whereas oekom research, having been acquired by ISS in March 2018, is now back under the ultimate control of an EU-headquartered parent company.

Two key trends over the past five years are consolidation of the established sustainability-related product and service providers through acquisition by financial investment research firms, and growth in the overall number of sustainability-related product and service providers through new market entrants. Although there has been a growth in the overall number of providers, it is challenging for new market entrants to replicate and compete with the larger sustainability-related product and service providers in particular due to the level of investment needed to establish a credible alternative that covers a broad range of ESG issues, encompassing as many as a thousand data points, across thousands of companies. The competitive dynamics in this industry are explored further in Part II of this study.

ESG Merger & Acquisition Activity

There is significant interest among traditional investment research firms and ESG specialty shops.



Source: ERM research

Figure 3: Merger and Acquisition Activity from 2009 to Mid-2020

A recent trend by some sustainability-related rating providers is the free publication of top-line sustainability-related ratings. In the majority of cases, these were previously behind paywalls. MSCI made the 2 800 companies in its flagship global equity index searchable via an online tool in late 2019. In addition, in early 2020, MSCI released the ESG ratings for 7 500 constituents of the MSCI All Country World

Index (ACWI) Investable Markets index.¹⁷ Sustainalytics announced its high-level ESG Risk Ratings for more than 4 000 companies are publicly available on its website.¹⁸ While the full in-depth company analysis reports and underlying data from MSCI and Sustainalytics remain available for a fee, the public disclosure of the high-level ratings is a new development.

At the same time, investor demands for sustainability-related information are shifting from rudimentary single plug-and-play ratings to more in-depth and contextualized research. Sustainability-related product and service models are evolving as investor ESG strategies grow and mature, and the ESG data ecosystem continues to expand. Recent research from Deloitte on *Advancing ESG Investing: A Holistic Approach for Investment Management Firms*¹⁹ notes the 68% of investment managers believe that most of the growth in ESG investments will be fuelled by product customization.

1.3. Sustainable Investment

As the concept of 'sustainable investing' has emerged over the last few decades, several other terms have come to be commonly used to describe an investment approach that takes into account ESG factors. Terms like 'sustainable finance,' 'socially responsible investing,' 'ESG investing,' 'green finance' and 'ethical investing' have emerged without generally agreed upon definitions for what each term means. In 2016, EuroSIF, the leading European association for the promotion and advancement of sustainable and responsible investment across Europe, defined Sustainable and Responsible Investment (SRI) as 'a long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long term returns for investors, and to benefit society by influencing the behaviour of companies'.²⁰ This definition has been widely used across Europe to provide a clear description for SRI, but at the time there was still no regulatory guidance on the definition for 'sustainable investing.'

EuroSIF also defines an important divergence in approaches to evaluating ESG factors: 1) The first is to 'better capture long term returns for investors,' taking advantage of ESG risks/opportunities for *investment gain*, and 2) the second is to 'to benefit society by influencing the behaviour of companies,' which distinctly describes the act of evaluating ESG factors in order to drive *societal benefit*.²¹ For much of the past two decades, investment gain and societal benefit have been considered by many in the investment market as separate and independent of one another. However, a growing body of research and evidence clearly demonstrating that investment gain and societal benefit are not mutually exclusive, has shifted this opinion across the investment field.

¹⁷ Joe McGrath, 'MSCI to Make ESG Ratings Public', *News, ESG Clarity*, 27 November 2019, <https://esgclarity.com/msci-to-make-esg-ratings-public/>.

¹⁸ Joe McGrath, 'MSCI to Make ESG Ratings Public', *News, ESG Clarity*, 27 November 2019, <https://esgclarity.com/msci-to-make-esg-ratings-public/>.

¹⁹ Deloitte Insights, *Advancing Environmental, Social, and Governance Investing: A Holistic Approach for Investment Management Firms*, February 2020, https://www2.deloitte.com/content/dam/insights/us/articles/5073_Advancing-ESG-investing/DI_Advancing-ESG-investing_UK.pdf.

²⁰ European Sustainable and Responsible Investment Forum (Eurosif), *European SRI Study 2018*, June 2018, <http://www.eurosif.org/wp-content/uploads/2018/11/European-SRI-2018-Study-LR.pdf>.

²¹ Ibid.

Regardless, the outcome of any investment decision is ultimately dependent upon the desire of the investor and their interpretation of the market. Some investors may choose to prioritise investment gain, selecting investment advisors, asset managers, investment products and approaches only on that one criteria, whether they consider sustainability criteria or not. Other investors may be driven primarily by societal benefit and will allocate capital based on the ability of investment advisors, asset managers and any investment product or approach to drive specific societal outcomes. Still, others may seek an investment strategy that drives both investment gain and societal outcomes in alignment with the EuroSIF definition. The allocation of capital and the desired outcomes from that allocation are up to the investor.

As an increasing number of sustainability-related investment products, such as indices and exchange-traded funds (ETFs), are being brought onto the market and asset managers are increasing selling investment services and advice deemed to incorporate sustainability-related factors, the need for clear alignment on the definition of sustainable investing has become critical. Investors need a way to specifically identify which products and services aligned best with their desired outcomes.

The European Commission, under the umbrella of the 2018 Action Plan on Financing Sustainable Growth, sought to address this need for a clear and aligned definition through the publication in the Official Journal (OJ) of the EU of Regulation 2019/2088 in December 2019 on sustainability-related disclosures in the financial services sector, which defined sustainable investment as:²²

An investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

For many financial market participants within the EU, this definition helped clarify how the term sustainable investment may be used and how products that claim to be 'sustainable' can be marketed. Within the EU, what constitutes a sustainable investment is becoming more clearly defined, and regulated, with the publication in the OJ of the EU of Regulation 2020/852²³ in June 2020 on the establishment of a framework to facilitate sustainable investment, more commonly known as the European Union (EU) Taxonomy.

²² Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability – related disclosures in the financial services sector (OJ L 317, 9.12.2019, p. 8). Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN>.

²³ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13–43). Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852>.

The Taxonomy Regulation tasks the Commission with establishing the actual list of environmentally sustainable activities by defining technical screening criteria for each environmental objective. These criteria will be established through delegated acts, the first of which is due to be adopted by 31 December 2020 and will enter into force in December 2021. Guidelines and technical recommendations²⁴ have been produced by the Technical Expert Group (TEG) on sustainable finance that support the EU Taxonomy and will inform the delegated acts. However, as the delegated acts have yet to be published and the technical recommendations of the TEG are still relatively new, the requirements of the Taxonomy Regulation have not yet been fully embedded across investors, companies and project promoters. It is anticipated that they will have wide-ranging implications for all stakeholders that wish to work in the EU, including sustainability-related product and service providers.

1.3.1. Sustainable and Responsible Investing Strategies

As the concept of sustainable investing has developed over the last three decades, the strategies adopted by investors and asset managers around sustainable investing have also been further defined. In 2012, EuroSIF identified the following seven strategies used by asset managers to incorporate sustainability and responsibility into investment decision-making and take into account ESG criteria. While the rationale for which approach to use is up to the investor or asset manager, the seven strategies outlined in Table 2 below have become widely recognized in the investment industry.

Table 2: Sustainable and Responsible Investment Strategies (adapted from EuroSIF)²⁵

Strategy	Definition	Description
Sustainability-Themed Investment	Investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific or multiple issues related to ESG.	Sustainability-themed investments inherently contribute to addressing social and/or environmental challenges, such as climate change, eco-efficiency and health. Since 2008, funds are required to have an ESG analysis or screen of investments to be counted in this approach.
Best-in-Class Investment Selection	Leading or best-performing investments within a universe, category or class are selected or weighted based on ESG criteria.	This approach involves the selection or weighting of the best performing, or most improved companies or assets as identified by ESG analysis, within a defined investment universe. This approach includes best-in-class, best-in-universe and best-effort.
Norms-Based Screening	Screening of investments according to their compliance with international standards and norms.	This approach involves the screening of investments based on international norms or combinations of norms covering ESG factors. International norms on ESG are those defined by international bodies, such as the United Nations (UN).

²⁴ EU Technical Expert Group on Sustainable Finance Technical Report, *Taxonomy: Final Report of the Technical Expert Group on Sustainable Finance*, https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf.

²⁵ Eurosif, *EuroSIF SRI Study 2012*, June 2012, https://issuu.com/eurosif/docs/eurosif_sri_study_low-res_v1.1_revised_.

Strategy	Definition	Description
Exclusion of Holdings from Investment Universe	An approach that excludes specific investments or classes of investment from the investible universe, such as companies, sectors, or countries.	This approach systematically excludes companies, sectors or countries from the permissible investment universe if involved in certain activities based on specific criteria. Common criteria include weapons, pornography, tobacco and animal testing. Exclusions can be applied at the individual fund or mandate level, but increasingly also at asset manager or asset owner level, across the entire product range of assets. This approach is also referred to as ethical- or values-based exclusions, as exclusion criteria are typically based on the choices made by asset managers or asset owners.
Integration of ESG Factors in Financial Analysis	The explicit inclusion by asset managers of ESG risks and opportunities into traditional financial analysis and investment decisions based on systematic process and appropriate research sources.	This strategy covers explicit consideration of ESG factors alongside financial factors in the mainstream analysis of investments. The integration process focuses on the potential impact of ESG issues on company financials (positive and negative), which in turn may affect the investment decision.
Engagement and Voting on Sustainability Matters	Engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process, seeking to influence behaviour or increase disclosure.	Engagement and voting on corporate governance only is necessary, but not sufficient to be counted in this strategy.
Impact Investment	Impact investments are investments made into companies, organizations and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market-to-market rate, depending upon the circumstances.	Investments are often project-specific, and distinct from philanthropy, as the investor retains ownership of the asset and expects a positive financial return. Impact investment includes microfinance, community investing, social business/entrepreneurship funds and solidarity funds.

Source: EuroSIF

These seven strategies have been further defined by several other key organizations that influence sustainable investment in the EU, including the Global Sustainable Investment Alliance (GSIA), the PRI and the European Fund and Asset Management Association (EFAMA). The below table outlines equivalencies between the EuroSIF names for the seven approaches and those identified by GSIA, PRI and EFAMA.

Table 3: Sustainable and Responsible Investment Strategies Identified across EuroSIF, GSIA, PRI and EFAMA²⁶

EuroSIF	GSIA-equivalent	PRI-equivalent	EFAMA-equivalent
Exclusion of holdings from investment universe	Negative/exclusionary screening	Negative/exclusionary screening	Negative screening or Exclusion
Norms-based screening	Norms-based screening	Norms-based screening	Norms based approach (type of screening)
Best-in-Class investment selection	Positive/best-in-class screening	Positive/best-in-class screening	Best-in-Class policy (type of screening)
Sustainability themed investment	Sustainability-themed investing	Sustainability themed investing	Thematic investment (type of screening)
ESG integration	ESG integration	Integration of ESG issues	-
Engagement and voting on sustainability matters	Corporate engagement and shareholder action	Active ownership and engagement (three types): Active ownership Engagement (Proxy) voting and shareholder resolutions	Engagement (voting)
Impact investing	Impact/community investing		

Source: EuroSIF

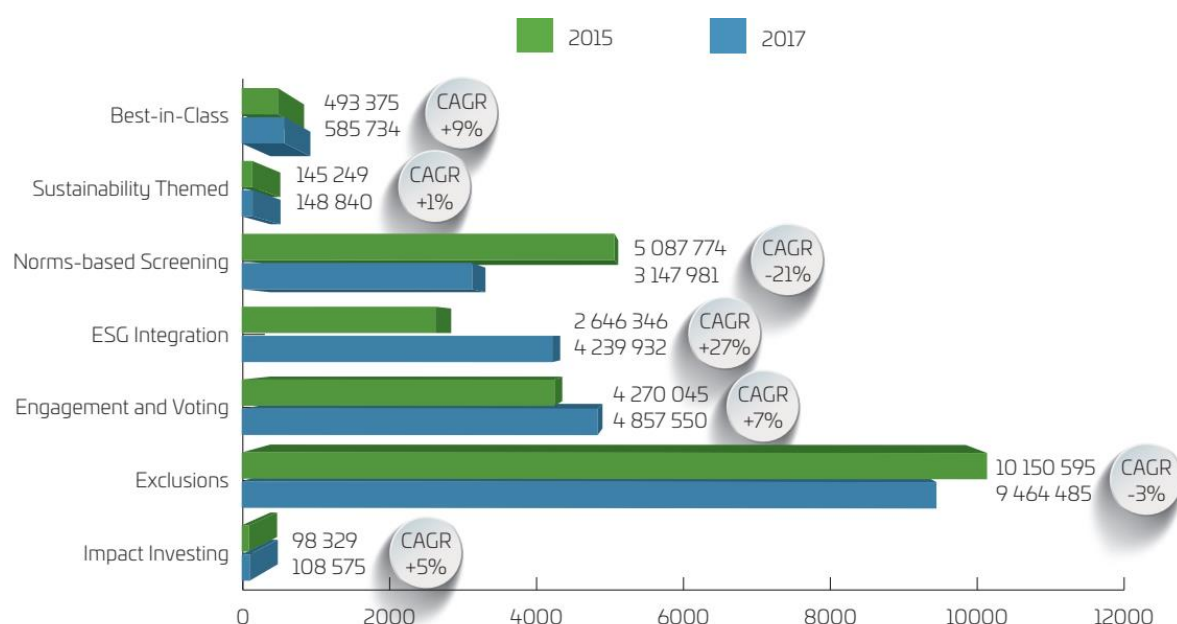
Often asset managers employ more than one strategy across a given portfolio or product. Across these strategies, investors and asset managers also choose the criteria utilised in each case. For *sustainability-themed investments*, they can choose which sustainability theme they wish to pursue, for example, climate change mitigation, and also how to analyse and screen which investments adhere to that theme, for example, which companies support climate change mitigation or are taking actions to mitigate their own climate impacts. For the *exclusion* or *best-in-class* approaches, they can choose the threshold that determines how they will define the permissible investment universe and what criteria will determine which companies or assets are determined to be 'best in class'.

For each of these individual strategies, or any combination of them, investors and asset managers rely on a variety of sustainability-related products and services to help inform the criteria established for them. For example, if an asset manager has established a thematic investment approach focused on climate change mitigation across equities, it will require information and data on company sustainability practices and performance to inform which companies should be included in that portfolio or product. If an asset manager wants to take an exclusionary approach to avoid companies or assets that directly or indirectly support the tobacco industry, they will need data on which companies do so. This need for data and information on sustainability metrics and performance across asset classes is what drives the market for sustainability-related products and services.

As outlined in the discussion of market trends above, Europe has seen an increase in total assets committed to sustainable and responsible investment strategies over recent years. Figure 4 below indicates the use of each strategy in 2017, according to survey

²⁶ Eurosif, *EuroSIF SRI Study 2018*, June 2018, <http://www.eurosif.org/wp-content/uploads/2018/11/European-SRI-2018-Study-LR.pdf>.

results from 264 asset managers and asset owners with a combined AUM of EUR 20 trillion representing an estimated total European market coverage of 79%.²⁷ The study covered 13 distinct markets, including Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Norway, Poland, Spain, Sweden, Switzerland and the United Kingdom. While the exclusions strategy had the highest penetration in Europe in 2017, this has experienced a 3% reduction in compound annual growth rate (CAGR) since 2015. ESG integration has the highest growth rate from 2015 to 2017 with a 27% CAGR followed by best-in-class with 9% CAGR and engagement and voting with 7% CAGR.²⁸



Source: EuroSIF

Figure 4: Overview of SRI Strategies in Europe (figures in EUR millions)

1.4. The Sustainability Information Ecosystem

An entire ecosystem of sustainability-related products and services has largely been established to meet investors' and asset managers' desire to employ sustainable investment strategies and design products, such as funds, ETFs and indices, around those strategies. This information ecosystem also informs products that evaluate the ultimate performance of those financial products. Within this ecosystem there are several key market participants.

²⁷ European Fund and Asset Management Association (EFAMA), *EFAMA Asset Management Report*, September 2019, https://www.efama.org/Publications/Statistics/Asset%20Management%20Report/EFAMA_Asset%20Management%20Report%202018%20voor%20web.pdf. This estimation is based on EFAMA's Asset Management report 2018, which reports that the total Assets managed in Europe reached a record high of EUR 25.2 trillion.

²⁸ Eurosif, *EuroSIF SRI Study 2018*, June 2018, <http://www.eurosif.org/wp-content/uploads/2018/11/European-SRI-2018-Study-LR.pdf>.

1.4.1. Market Participants

Across the list of market participants²⁹ three are most relevant in the context of this report: companies, investors and sustainability-related product and service providers. These, and the other market participants, are further described below:

Companies generate sustainability-related data based on their practices and performance and are responsible for the content and type of sustainability-related public disclosure. Companies may also provide information upon request directly to other organisations – for example, to data providers and investors. Company disclosed data is then used by sustainability-related product and service providers. Companies also buy from these same providers. According to the March 2020 Opimas report³⁰, companies mainly use ESG ratings to benchmark themselves across their industry peer group, and they make up about 4% of the total demand for 'ESG data'.

- **Listed Companies:** There are around 5 700 companies listed on stock exchanges in the EU, including approximately 470 in Germany, 457 in France and approaching 3 000 listed domestic companies in Spain.³¹

Sustainability-related product and service providers can present sustainability-related information to users in different forms, including data aggregation, ratings, rankings, screening/weighting services, research, benchmarks, voting advisory, controversy reports and financial product assessments. Ratings, in particular, may focus on companies to serve as assessments of a specific company's sustainability performance or on financial products, such as evaluating a specific fund's ESG performance. Providers of these products and services include: Bloomberg, MSCI, Sustainalytics, ISS, FTSE Russell, S&P, Vigeo Eiris, Refinitiv (formerly Thomson Reuters) and others. These products are classified and analysed in depth in Part 2: Classification of Products and Providers.

- **Sustainability-related (or ESG) Rating and Data Providers:** Several studies have identified between 10 to 15 major sustainability-related rating and data providers based on company, country and market coverage including: Bloomberg, CDP, FTSE Russell, ISS-ESG, MSCI, Refinitiv, RepRisk, RobecoSAM, Sustainalytics and Vigeo Eiris.^{32, 33} Sustainability-related rating providers are often more commonly known as ESG rating agencies. It is difficult to obtain comprehensive or accurate data on the total number of sustainability-related rating and data providers, given the very limited research into this market. In total, the number of substantive sustainability-related rating and data providers is estimated to be approximately 150 worldwide according to the KMPG 2020 Sustainable Investing

²⁹ World Economic Forum (WEF), Allianz SE and BCG, 'Seeking Return on ESG' (White paper, WEF, Switzerland, January 2019). Definitions adopted from this paper.

³⁰ Anne-Laure Foubert, *ESG Data Market: No Stopping Its Rise Now*, March 2020, <http://www.opimas.com/research/547/detail/>. Note that Opimas uses a broad definition of ESG Data to include 'ESG content' and 'ESG indices'.

³¹ 'Listed Domestic Companies, Total – European Union', Data, The World Bank, <https://data.worldbank.org/indicator/CM.MKT.LDOM.NO?locations=EU>. This is the latest data (2018) and only includes stock exchanges in the EU-27.

³² Elena Escrig-Olmedo, Maria Angeles Fernandez-Izquierdo, Idoya Ferrero-Ferrero, and Juana Maria Rivera-Lirio, 'Rating the Raters: Evaluating How ESG Rating Agencies Integrate Sustainability Principles', *Sustainability* 11.3 (2019): 915.

³³ Feifei Li and Ari Polychronopoulos, 'What a Difference an ESG Ratings Provider Makes!', *Articles, Research Affiliates*, https://www.researchaffiliates.com/en_us/publications/articles/what-a-difference-an-esg-ratings-provider-makes.html.

report.³⁴ It is estimated that there are between 30 and 40 recognised sustainability-related rating and data providers domiciled in the EU.³⁵

Investors are a broad segment that includes asset owners and asset managers that leverage available sustainability-related information to inform their decisions on capital allocation, engage with company boards on sustainability-related issues and aggregate sustainability-related data and information on their portfolio companies into their investment management practices. The breadth and depth of sustainability-related data and information analysed varies by investor, depending upon the investment strategy (see section on Sustainable and Responsible Investing Strategies). Investment banks are included in this participant group as they will assess sustainability-related data and information to make buy, hold and sell recommendations to investors. The PRI signatories were used to estimate the number of investors under each subcategory.

- **Asset Owners:** There are 552 asset owner signatories to the PRI (July 2020), of whom 234 are EU 27-based and 65 are UK-based (including Channel Islands and Isle of Man). According to the Opimas report, asset owners represent around 12% of the global market for 'ESG data'.
- **Asset Managers:** There are 2 348 asset manager signatories to the PRI (July 2020), of whom 760 are EU 27 based and 379 are UK-based. According to the Opimas report, asset managers represent the largest spending on 'ESG data', at around 59% of the total market.
- **Investment banks:** The primary investment banks in Europe include Barclays, Bank of America, BNP Paribas, Citigroup, Deutsche Bank and Goldman Sachs. There are an estimated 142 investment banks in the EU.

Benchmark Administrators refer to a natural or legal person that has control over the provision of a benchmark, that being an index that is used to measure the performance of an investment fund with the purpose of tracking the return of such index.³⁶ In the context of sustainable investments, benchmark administrators are considered to be firms that provide or publish an ESG or sustainability-related benchmark, or family of benchmarks, based upon a proprietary company selection methodology that fit the criteria of each benchmark. Benchmark administrators may be providers and/or clients of sustainability-related data services and most of the main providers have in-house data services. Examples include FTSE Russell, MSCI, S&P, and STOXX.

Investment Researchers include sell-side research and financial analysts, who are increasingly integrating ESG data across their operations and their analysis products, for incorporation in corporate banking activities (e.g. loan, trade finance, structured finance), and investment banking (e.g. fixed-income issuance). The Extel 2019 survey identified representatives from 463 sell-side firms, of which approximately 55% were domiciled in continental Europe.³⁷ According to the Opimas report, sell-side institutions are the second biggest spenders on 'ESG data' at 19% of total market spend.

³⁴ KPMG, *Sustainable Investing: Fast-Forwarding Its Evolution*, February 2020, page 45, <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/02/sustainable-investing.pdf>. In addition, according to The Global Initiative for Sustainability Ratings, there were more than 125 ESG data providers in 2016.

³⁵ ERM estimate based on research. There are 103 Service Providers listed as Signatories to the PRI in the EU, but these include a broader scope of organisations than just sustainability-related rating and data providers. This is expanded on in Part 2 of this report.

³⁶ The full definition of the terms 'benchmark' and 'administrator' are provided in EU Regulation 216/1011, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R1011&from=EN>

³⁷ 'Extel 2019 Winners', Extel 2019, Extel Surveys, <https://www.extelsurveys.com/extel-2019/>.

Standard setters publish detailed guidelines that support companies in understanding what ESG-related information they should disclose, by topic. Through their standards and guidelines, they influence a company's decisions about which ESG metrics to report on and methodologies used to measure those metrics. Well-known examples include the Climate Disclosure Standards Board, the GRI and the SASB. A wide array of industry associations and other bodies also publish guidelines on sustainability-related reporting for companies, such as the global oil and gas industry association IPIECA (based in the UK), the German Property Federation (ZIA) CSR Reporting guidelines and the Euronext Guidelines to Issuers for ESG Reporting³⁸ (based in the Netherlands).

Framework developers also influence the ESG-related information a company publishes, but they have a greater focus on principle-based concepts for how a report is structured. They help companies to understand the best manner of developing and presenting their disclosures, how to consider reporting practice through the lens of long-term value creation, and the position and importance of sustainability in and alongside traditional annual reporting practices. Examples include the International Integrated Reporting Council (IIRC), the UN Global Compact, the GRI 10 Reporting Principles and the TCFD.

Regulators represent a multitude of regulatory institutions and bodies that can intervene in the sustainable investment market through the regulation of market participants and their activities. In the European Union, as well as the Council of the EU and the European Parliament, the sustainability information ecosystem is principally governed by financial regulatory authorities, including, for example, the European Securities and Markets Authority, along with national governments and supervisory authorities. This is expanded on further in the section on Market Regulation below.

Professional Advisors and Consultants include professional service providers and advisers to all other market participants. This includes, for example, commercial organisations that provide advice relating to environmental, social and/or governance aspects of investment activity, or organisations that provide services in relation to the preparation and presentation of company sustainability-related disclosures. There are 350 service provider signatories to the PRI (as of September 2020), of whom 103 are EU 27-based and 71 are UK-based. According to the Opimas report, consulting firms, financial and other investment advisors represent around 6% of the global market for 'ESG data'.

Additional Influential Stakeholders include a range of organisations that offer various advisory services or support to help companies understand how to better measure, benchmark, improve or report important aspects of their sustainability-related performance, or to help investors establish sustainability-related investment strategies. They also encourage a heightened focus on sustainability in organisations and the wider market. A few well-known examples include Ceres, Science Based Targets, Principles for Responsible Investment, World Business Council for Sustainable Development (WBCSD) and World Benchmarking Alliance.

1.4.2. Data and Information Flows

An understanding of how sustainability-related information flows between and across these participants is important context for this study. At a high level, framework

³⁸ Euronext, *Guidelines to Issuers for ESG Reporting*, 2020, <https://www.euronext.com/en/news/esg-guidelines-for-listed-companies>.

developers, standard setters and regulators inform how companies disclose information and how that information is analysed. Sustainability-related product and service providers actively or passively request information from companies, aggregate data disclosed by companies and rate them. Investors and Asset Managers purchase information from sustainability-related product and service providers to inform investment decision-making. This information then also informs the creation of sustainable investment products.

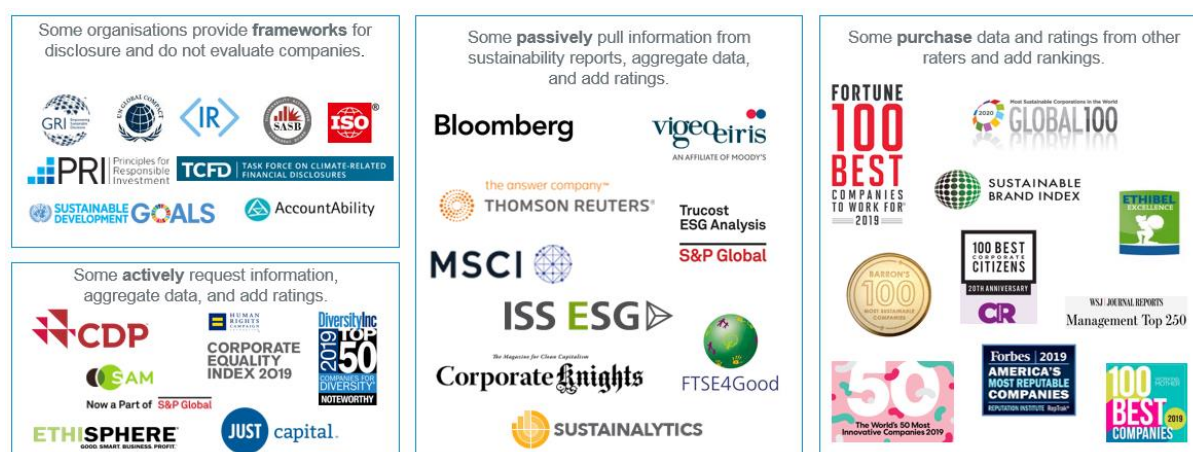


Figure 5: Key Players in the Sustainability-Related Product and Service Ecosystem

The sustainability-related information ecosystem diagram below (Figure 6) describes how investors, asset managers and benchmark administrators access and pay for data, research and analysis on company sustainability performance. This purchased information is ultimately used to assess ESG-related risks and opportunities (such as climate risk) to help inform investment decision-making, ownership activities, investment portfolio impact and risk exposure measurement.

As outlined above, the Opimas report issued in March 2020 states that the biggest buyers of 'ESG data' are asset managers at 59%, followed by sell-side institutions at 19%, asset owners at 12%, other, including consulting firms and investment advisors, at 6% and corporations at 4%.³⁹ Asset managers use the data across the investment decision-making process from portfolio selection, index construction and risk management to voting practices and engagement with companies. Sell-side institutions will integrate ESG data into their research –they may publish studies on the financial implication of ESG themes on economies, industries or companies, or they will integrate ESG factors into their own investment recommendations.⁴⁰ Corporations, often supported by sustainability or ESG consulting firms, mainly use ESG data to benchmark

³⁹ Anne-Laure Foubert, *ESG Data Market: No Stopping Its Rise Now*, Opimas, March 2020, <http://www.opimas.com/research/547/detail/>. Percentages are according to the Opimas report. Note that Opimas uses a broad definition of 'ESG data' to include 'ESG content' and 'ESG indices'.

⁴⁰ Principles for Responsible Investment (PRI), *A Practical Guide to ESG Integration for Equity Investing: Sell-side Research*, 2016, <https://www.unpri.org/esg-integration-in-sell-side-equities-research/16.article>.

against peer performance, understand industry risks and opportunities or engage more deeply with investors.

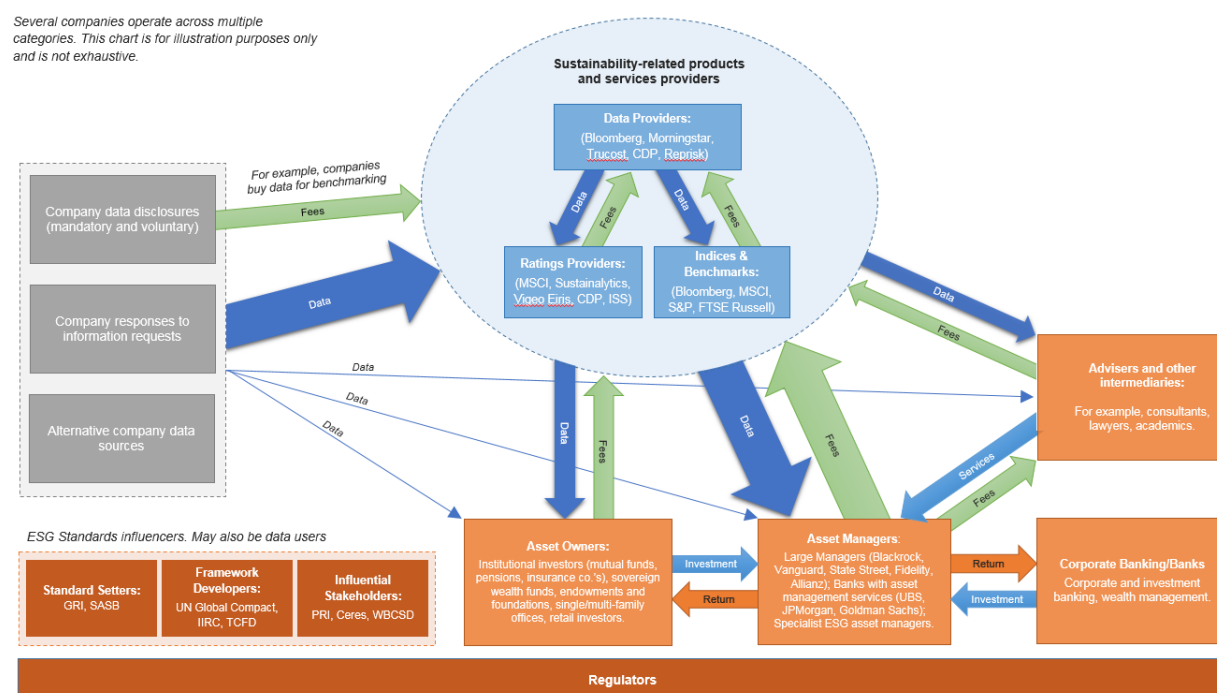


Figure 6: The Sustainability-Related Information Ecosystem

Moving from left to right according to Figure 6, the primary source of sustainability-related data and information about a company comes from public company disclosures. These public disclosures may be mandatory or voluntary. Mandatory disclosures are those made in accordance with regulation, such as financial reporting in accordance with the International Financial Reporting Standards and non-financial reporting in accordance with the EU Non-Financial Reporting Directive (NFRD). Large listed companies and financial institutions in the EU (at minimum those with more than 500 employees during the financial year, although some EU member states have adopted stricter thresholds) are required to report on business impact, development, performance and position relating to a list of specified non-financial issues in accordance with the NFRD. Voluntary disclosures are those by companies where there is no regulatory requirement to report. Such disclosures are often in the form of additional disclosures in company sustainability reports or through other information provided on company websites (such as policies and approaches) that goes beyond the requirements of applicable regulations. These disclosures typically include both quantitative numerical data (e.g. GHG emissions, waste, water consumption, employee metrics) and qualitative management disclosures that describe the company's approach and performance on sustainability or ESG issues (e.g. company health, safety and environment management systems, human rights approach, supply chain policies, corporate responsibility strategy). This sustainability-related data and information may or may not be internally or externally assured before public disclosure.

The publicly disclosed data from companies is then further collated, analysed and enhanced by providers that supply ratings and analysis to investors and a range of

financial institutions. In some cases, additional resources are used to add media and market sentiment information to the analysis (for example, controversy alerts). Often sustainability-related data providers will sell to other sustainability-related ratings providers, in addition to end users, and to intermediaries such as consulting or professional advisory firms. Sustainability-related ratings providers primarily sell to end users, but also to companies. The end users of sustainability-related ratings and data are typically asset managers and asset owners.

1.4.3. Market Regulation

The European Commission has issued an array of actions including legislative initiatives relating to sustainability that impact asset managers and investment funds, and other types of financial services providers.

The European Commission released an Action Plan for Financing Sustainable Growth in March 2018⁴¹ which included clarifying institutional investors' and asset managers' duties, incorporating sustainability into the suitability assessment of financial instruments, and increasing transparency of sustainability benchmarks. A consultation on the renewed sustainable finance strategy was launched in April 2020 and concluded in July 2020.⁴² The renewed strategy will contribute to the objectives of the European green deal investment plan, in particular to creating an enabling framework for private investors and the public sector to facilitate sustainable investments. It will build on previous initiatives and reports, such as the action plan on financing sustainable growth and the reports of the Technical Expert Group on Sustainable Finance (TEG).

As part of the EC's Action Plan, the Sustainable Finance Disclosure Regulation (SFDR)⁴³ introduced various disclosure-related requirements for financial market participants and financial advisors at the entity, service and product level. It was published on 9 December 2019 and aims to provide more transparency on sustainability within the financial markets in a standardised way, thus preventing greenwashing and ensuring comparability. The harmonised rules apply to financial market participants (providing SFDR products) and advisers (advising on SFDR products) with regard to:

- the integration and consideration of sustainability risks and adverse sustainability impacts in their decision making or investment advice processes; and
- the provision of sustainability-related information with regard to financial products.

The majority of the new disclosure obligations will be applicable as of 10 March 2021, and the first mandatory reporting is required from 30 June 2021. The disclosure obligations include a requirement for financial market participants to publish and maintain on their websites:

⁴¹ Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions Action Plan: Financing Sustainable Growth (COM/2018/097 final). Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097>.

⁴² European Commission, 'Consultation Document: Renewed Sustainable Finance Strategy Consultation, (White paper, European Commission, Brussels, Belgium, April 2020), https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy_en.

⁴³ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability – related disclosures in the financial services sector (OJ L 317, 9.12.2019, p. 1–16). Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN>.

- a. a description of the environmental or social characteristics or the sustainable investment objective;
- b. information on the methodologies used to assess, measure and monitor the environmental or social characteristics or the impact of the sustainable investments selected for the financial product, including its data sources, screening criteria for the underlying assets and the relevant sustainability indicators used to measure the environmental or social characteristics or the overall sustainable impact of the financial product;

Regulatory technical standards to further specify the content, methodologies and presentation of information in relation to sustainability indicators, as well as to specify the presentation and content of the information with regard to the promotion of environmental or social characteristics and sustainable investment objectives to be disclosed in pre- contractual documents, annual reports and on websites of financial market participants, are due to the EC by 30 December 2020.

The European Commission's regulatory regime is designed to broadly 1) channel investment towards financing sustainable economic activities to transform the economy and 2) ensure financial stability through integrating ESG factors into financial firms' risk management processes. These aims are achieved through both prudential and conduct-based rules. Prudential rules cover investment firms and credit institutions and focus on integrating ESG risk into the management framework as well as into disclosures. Conduct-based rules are being setup to both delineate criteria for an 'environmentally sustainable' investing product, and mandate disclosures for products markets as having ESG features. Several regulations are already in effect, with more to be developed and rolled out in the coming years – key sustainable finance-related European Commission regulations and summaries are highlighted in the Table 4 below.

Table 4: Key Sustainable Finance-Related European Commission Regulations (adapted from FactSet⁴⁴)

European Commission Regulation	Relevant Entities	Commentary
Directive 2014/95 The Non-Financial Reporting Directive (NFRD)	Companies	Companies with more than 500 staff to disclose ESG information and data relating to their business operations. Currently under review with Commission adoption of amended NFRD planned for the first quarter 2021.
Directive 2017/828 The Second Shareholder Rights Directive (SRD II)	Buy-side	Buy-side to integrate ESG considerations in investment strategies and engagement activities.
Prudential	Credit institutions and investment firms	Credit institutions and investment firms to integrate ESG risk into prudential risk management arrangements.
Regulation 2020/852 Taxonomy	Sustainable investment	Establishes the framework and criteria

⁴⁴ Barrie C. Ingman and Mackenzie Hargrave, *Solving the ESG Data Challenge: A Transparent Framework for Leveraging Connected Content to Simplify ESG Vendor Selection, Evaluation, and Data Integration* (Norwalk: FactSet, 2020), e-book, <https://www.factset.com/hubfs/Resources%20Section/eBook/eBooks/solving-the-esg-data-challenge-ebook.pdf>.

European Commission Regulation	Relevant Entities	Commentary
Regulation	market participants	for determining whether an economic activity qualifies as environmentally sustainable.
Regulation 2019/2088 The Sustainable Finance Disclosure Regulation (SFDR)	Financial market participants (banks, investment firms, asset managers, insurers)	Aims to provide transparency on sustainability within the financial markets in a standardised way - applicable from March 2021.
Regulation 2019/2089 The Climate Benchmarks Regulation (CBR)	Benchmark administrators	Disclosure requirements for benchmarks pursuing ESG objectives and disclosure of alignment with Paris Agreement objectives.
Proposed future measures		
EU Green Bond Standard (GBS)	Bond issuers and asset managers	Proposed measures for an EU-green bond standard, specifying verification standards and requirements for underlying assets.
EU-Ecolabel	Financial Services	Proposal to add financial services compliant with relevant criteria to the list of other products under the EU eco-label regulation framework.
Further ESG-related amendments to MiFID II, IDD, UCITS and AIFMD; Sustainability and Risk Management Rules and Proposals on combatting short-termism	Multiple	Various amendments to further integrate ESG factors into MiFID II, IDD, UCITS, and AIFMD suitability and risk management rules; proposals on combatting short termism.

Based on the research conducted, **no specific regulations apply to the provision of sustainability-related data, ratings and research** (beyond laws that govern any organisation or individual that publishes information). Specifically, **given the provision of sustainability-related data, ratings and research do not constitute an offer, solicitation or advice to buy or sell securities nor are they intended to solicit votes or proxies, they are not governed by any formal rules or requirements.**⁴⁵

Sustainability-relating ratings, data and research are regarded as guidance rather than investment advice or recommendations, and therefore not subject to market regulations. This was noted by all the leading sustainability-related product and service providers that responded to the relevant question in the survey conducted for this study. As noted by one respondent, whilst sustainability-related ratings, data and research provided is used by clients in tailoring their investment strategies according to their own sustainability preferences and values, this does not fall under the scope of the MIFID Directive and is not considered 'investment advice'. Another noted that the sustainability-related ratings, data, and research undertaken by providers is not considered to constitute 'investment research' as defined by the MIFID Directive, as the

⁴⁵ Based on responses by leading global sustainability-related rating, data and research providers to the question in the survey conducted for this study on what investment-related rules or regulations apply to their activities.

information provided is not considered to amount to 'recommending or suggesting an investment strategy, explicitly or implicitly'.

EU Country Level Legislation

The Institute of International Finance in its recent report 'Building a Global ESG Disclosure Framework: a Path Forward,' estimates that more than 40 countries already have policy and regulatory measures around ESG disclosure, though there is little coordination or consistency between them.⁴⁶ The PRI's database on regulations related to responsible investment policy as of 2019 collates country-level regulations across the ESG Ecosystem.⁴⁷ Over the last few decades, there have been several countries who have regulated ESG integration within pension fund management and disclosure (Austria, Belgium, France, Germany, Italy, Netherlands, Sweden); two have or are developing sustainable financial product eco-labels (Austria, France), and a few that recommended companies disclose on non-financial metrics (Portugal, Spain).

Outside of Member State implementation of EC legislation, only a few Member States have added more recent regulations between 2015 and 2019. Denmark published a stewardship code in 2016 for institutional investors that outlines best practice to create long-term value creation and return for investors.⁴⁸ In 2017, Sweden proposed its AP1-4 pension funds development guidelines for more responsible investing without compromising return.⁴⁹ The German Corporate Governance Code was updated in 2017 to further define corporate governance and notes that institutional investors should engage with companies on these principles.⁵⁰ Further, in 2018, the German Federal Council published regulations about company disclosures on remuneration calculations to both employees, and in its broader publications.⁵¹

France has published the most comprehensive set of regulations, including legislation to set up sustainable financial product labels, climate-related risk disclosures, human rights disclosures and additional measures around supporting broad market transitions as outlined in Table 5 below:

Table 5: French Sustainable Finance-Related Regulations since 2015 (adapted from the PRI)

Title	Institution	Commentary	Hyperlink to Source
Décret n° 2015-	French	This legislation sets out the legal framework	https://www.legif

⁴⁶ Andrés Portilla, Sonja Gibbs, Jeremy McDaniels, and Katie Rismanchi, 'Building a Global ESG Disclosure Framework: A Path Forward' (White paper, Institute of International Finance, Washington, D.C., June 2020), <https://www.iif.com/Publications/ID/3945/Building-a-Global-ESG-Disclosure-Framework-A-Path-Forward#:~:text=There%20is%20growing%20demand%20for,been%20taking%20place%20for%20decades.>

⁴⁷ 'Regulation database', Policy, PRI, <https://www.unpri.org/policy/regulation-database>.

⁴⁸ Corporate Governance, *Stewardship Code*, November 2016, https://corporategovernance.dk/sites/default/files/erst_247_opsaetning_af_anbefalinger_for_aktivt_ejerskab_uk_2k8.pdf.

⁴⁹ Ministry of Finance, Financial Markets Department, *Changed Rules for the First – Fourth AP Funds*, Regering, July 2017, <https://www.regeringen.se/rattsliga-dokument/departementsserien-och-promemorior/2017/07/andrade-regler-for-forstafjarde-ap-fonderna/>.

⁵⁰ ECGI, *German Corporate Governance Code 2019*, 16 December 2019, <https://ecgi.global/node/7493>.

⁵¹ Barbara Geck, 'Germany - Wage Transparency Act', *News Centre, Bird & Bird*, April 2018, <https://www.twobirds.com/en/news/articles/2018/germany/wage-transparency-act>.

Title	Institution	Commentary	Hyperlink to Source
1615 du 10 décembre 2015 relatif au label « Transition énergétique et écologique pour le climat »	Government	for a government-led label on sustainable financial products (related to climate change).	rance.gouv.fr/affichTexte.do?categorieLien=id&cidTexte=JORFTEXT000031593158
Décret n° 2016-10 du 8 janvier 2016 relatif au label «investissement socialement responsable »	French Government	This legislation sets out the legal framework for a government-led label on socially responsible financial products.	https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000031800648&categorieLien=id
Feuille de route sur la Finance Durable	Financial market regulator (AMF)	This roadmap describes how the AMF intends to respond to trends observed on the market and to integrate sustainable finance goals into all its activities. In a context where the emergence of a financial model that better incorporates sustainability issues appears to be an underlying market trend at many levels –from firms to asset managers and investors – the regulator will focus on several priorities: 1) supporting market participants and raising awareness to foster good practices; 2) encouraging innovation for sustainable finance; 3) supervising the various players, notably to ensure the relevance of the information provided; 4) collaborating with other regulators and participating in European and international regulatory work; and 5) educating savers to help them understand this new product offering.	https://www.amf-france.org/en_US/Actualites/Communiqués-de-presse/AMF/annee-2018?docId=workspace%3A%2F%2FSpacesStore%2Ff919926f-45f9-4180-84d8-050fb4ff4cfb&languageSwitch=true
Loi relative a la croissance et la transformation des entreprises	French Government	This legislation contains provisions 1) urging companies to adopt broader duties, 2) promoting sustainable life insurance unit-linked products, and 3) transposing the Shareholder Rights Directive II provisions on engagement and voting.	https://www.legifrance.gouv.fr/affichLoiPubliee.do?dDocument=JORFDOLE000037080861&type=general&legislature=15
Loi relative au devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre	French Government	The duty of vigilance law aims to put respect for human rights at the heart of the concerns of multinationals. It concerns large companies: French companies employing at least 5,000 employees in France and companies with more than 10,000 employees in France, regardless of where it is headquartered. Companies must draw up and publish a due diligence plan to prevent environmental, human rights and corruption risks based on their own activities as well as those of their subsidiaries, subcontractors and suppliers.	https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000034290626&categorieLien=id
The French Energy Transition Law - Article 173, Chapter 6	French Government	The French Energy Transition Law requires listed companies to disclose financial risks related to climate, mitigation efforts, and consequences of climate on its goods and services. Institutional investors and Investment Managers must disclose how ESG criteria are taken into consideration and	https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000031044385&categorieLien=id#JORFARTI00003104

Title	Institution	Commentary	Hyperlink to Source
		how their policies align with the national strategy for energy and ecological transition.	5547 Recent update: http://www.assemblee-nationale.fr/dyn/15/dossiers/energie_climat
Code de l'Environnement, Livre II, Titre II, Article L229-25	French Government	According to the code, companies with over 500 employees must publish a report on GHG emissions every three years.	https://www.legifrance.gouv.fr/affichCodeArticle.do?cidTexte=LEGITEXT000006074220&idArticle=LEGIA RTI000031063383&dateTexte=&categorieLien=id

1.4.4. Market Standards and Self-Regulatory Initiatives

There has been considerable growth in self-regulatory initiatives within the sustainable research and finance industries over the past decade, covering company disclosure and metrics, business behaviour and standards and sustainable investment. Major initiatives are listed in Table 6 below.

Some of these initiatives have attempted to establish (voluntary) market standards. In the reporting space, the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the Task Force on Climate-Related Financial Disclosures (TCFD) and the World Business Council for Sustainable Development (WBCSD) have achieved traction and have become widely used.

There have been three notable attempts to establish common voluntary standards for sustainability-related product and service providers. The first of these was the ARISTA standard,⁵² issued by ARISE (the Association for Responsible Investment Services, based in Belgium), which was a 'Responsible Investment Research Standard, developed in response to the demands from global investors and companies for responsible investment research groups to incorporate the key principles of quality, integrity, transparency and accountability into their research processes'. The purpose of the ARISTA standard in relation to sustainability-related research and analysis is to:

- Encourage 'Responsible Investment Research Groups' to adopt organisational features that ensure their independence and objectivity and professionalism;
- Improve quality management systems;
- Stimulate transparency;
- Facilitate assurance processes and form a basis for further verification procedures;

⁵² Herwig Peeters, 'Quality Standard for Responsible Investment Research Re-launched with Broader Scope', *Investor News, Vigeo Eiris*, 11 May 2012, <http://vigeo-eiris.com/quality-standard-for-responsible-investment-research-re-launched-with-broader-scope/>.

- Promote research characteristics viewed as best practices.

Four sustainability-related service and product providers make reference to the ARISTA standard in responses to the survey conducted for this study, however, the standard appears to have become largely defunct, given there are very few online references to it after 2017 and the organisation's website is no longer maintained. One notable respondent, a leading multi-national sustainability product and service provider, reported in the survey conducted for this study that they had ceased formal adherence to ARISE in 2018 due to lack of relevance, market awareness and recognition of the standard. Two other smaller EU-based sustainability-related product and service providers make reference to still using the standard.

The second, the Deep Data Delivery Standard⁵³ was launched in June 2016. This voluntary initiative established 10 standards for 'third party data providers', with the options of Gold, Silver or Bronze levels of recognition. Developed by a team of international investment professionals and academics, the Deep Data Delivery Standards were created for any asset manager or asset owner to use as a quality assurance standard when contracting with third-party sustainability-related data providers. Although the Deep Data Delivery Standards received support from many of the leading sustainability-related product and service providers at the time of their launch (Vigeo Eiris, MSCI, oekom research (now ISS ESG), RepRisk and TruValue Labs), they have received very little attention since then.

The third was the Global Initiative for Sustainability Ratings (GISR), which was designed to be 'a non-commercial, generally accepted sustainability ratings framework that meets the highest standards of technical excellence, independence and transparency'.⁵⁴ Launched in June 2011 as a joint project of Ceres and the Tellus Institute, both non-profit research and educational entities, the GISR, through a voluntary accreditation process, evaluates sustainability-related ratings, rankings or indices on the basis of their alignment with GISR's 12 Principles. The GISR merged with the WBCSD Reporting Exchange in 2018.⁵⁵ The standard appears to have achieved a small amount of traction but has largely faded from view.

While efforts to develop common voluntary standards for sustainability-related product and service providers are notable, none have been firmly established across the market. As one multi-national sustainability product and service provider reported in the survey conducted for this study they no longer maintain ARISE membership, ARISTA certification, compliance with the Deep Data Delivery Standards and the Global Initiative for Sustainability Ratings (GISR), as these initiatives were not getting very much attention in the market and have been largely discontinued.

For investors, the major standard is the UN Principles for Responsible Investment (PRI), which sets out six key principles including integrating ESG considerations into investment processes and seeking appropriate sustainability-related disclosure from companies in which they invest. Asset owners and managers who sign up to the principles are obliged to report annually on their progress and can be removed from the organisation for inadequate progress. As being a PRI member is a requirement for many asset owner

⁵³ 'Deep Data Delivery Standard', Deep Data, <http://www.deepdata.ai/>.

⁵⁴ Mark Tulay, 'Global Initiative for Sustainability Ratings (GISR)', *Business Ethics*, June 2011, https://business-ethics.com/wp-content/uploads/2011/06/GISR_Brochure_Final_June_2011.pdf.

⁵⁵ WBCSD, 'Expanding the reporting exchange to include comprehensive data on ratings and rankings', *News, WBCSD*, 3 July 2018, <https://www.wbcds.org/Programs/Redefining-Value/External-Disclosure/The-Reporting-Exchange/News/Expanding-the-reporting-exchange-to-include-comprehensive-data-on-ratings-and-rankings>.

tenders to asset managers, this initiative has considerable power and is driving uptake of sustainability-related data and research in order to comply with the principles.

1.4.5. Overview of Current Standards and Initiatives

Market standards and self-regulatory initiatives can be sub-divided into three sub-categories, based on their objectives:

- Responsible business conduct initiatives that aim to guide companies to sustainable and responsible business practices;
- Company disclosure initiatives that aim to increase the volume of or improve the quality of disclosure by companies;
- Responsible investing initiatives that aim to guide investors on their stewardship obligations, policies and processes.

Table 6 provides an overview of the main initiatives in the market for EC investors and companies.

Table 6: Key Market Standards and Self-Regulatory Initiatives

Responsible Business Conduct Initiatives		
Market Standard or Self-Regulatory Initiative	Foundation Date	Description
OECD Guidelines for Multinational Enterprises	1976	The guidelines are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards.
UN Global Compact	2000	The UN Global Compact is a policy platform and a practical framework for companies committed to sustainability and responsible business practices.
Company Disclosure Initiatives		
Market Standard or Self-Regulatory Initiative	Foundation Date	Description
CDP	2002	CDP requests information on climate risks and low carbon opportunities from the world's largest companies on behalf of over 515 institutional investor signatories with a combined US\$106 trillion in assets and 147 major purchasers with over US\$4 trillion in procurement spend.
SASB – Sustainability Accounting Standards Board	2011	SASB is an independent non-profit, whose mission is to develop and disseminate sustainability accounting standards that help public corporations disclose material, decision-useful information to investors.

TCFD - Task Force on Climate-related Financial Disclosures	2015	The TCFD provides voluntary, consistent climate-related financial risk disclosures that companies can use to provide information to investors, lenders, insurers and other stakeholders
GRI - Global Reporting Initiative	1997	GRI provides disclosure standards for companies to communicate their impact on key sustainability issues such as climate change, human rights, governance and social well-being using a modular approach of three universal standards applicable to all companies and three topic-specific standards – economic, environmental and social – that companies can choose from to report on.
CDSB – Climate Disclosure Standards Board	2007	CDSB provides a framework for integrating the reporting of environmental information, natural capital and associated business impacts into company disclosure to allow investors to assess the relationship between specific environmental matters and the organization's strategy, performance and prospects.
CRD – Corporate Reporting Dialogue	2014	CRD is an initiative that supports greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements.
IIRC - International Integrated Reporting Council	2010	IIRC is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. It promotes value creation as the next step in the evolution of corporate reporting, with a goal of establishing reporting and mainstream thinking and business practices in both the public and private sectors.

Responsible Investing Initiatives

Market Standard or Self-Regulatory Initiative	Foundation Date	Description
ICGN Global Stewardship principles	2003	Best practices in relation to investor stewardship obligations, policies and processes. These Principles provide a framework to implement stewardship practices in fulfilling an investor's fiduciary obligations to beneficiaries or clients.
EFAMA Stewardship codes	2011	The stewardship codes provide recommendations to cover the engagement between asset managers and companies they invest in.
PRI - Principles for Responsible Investing	2006	PRI works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership

		decisions.
UNEP FI - United Nations Environment Programme Finance Initiative	1991	UNEP FI is a global partnership established between the United Nations Environment Program and the financial sector that promotes sustainable finance with a special focus on climate change.
Eurosif - European Sustainable Investment Forum	2001	Eurosif is the leading European association for the promotion and advancement of sustainable and responsible investment across Europe, for the benefit of its members.
IIGCC - Institutional Investors Group on Climate Change	2007	IIGCC is a forum that enables investors to collaborate on climate change, with a focus on public policies, investment practices and corporate behaviour.

There are several challenges with market standards and self-regulatory initiatives, a main one being the lack of common expectations and criteria, which is partly hindered by the different stages of sustainable investment and sustainability-related disclosure across the world.

It is notable that self-regulatory standards have had considerable traction where there is a strong business argument for applying them. For example, PRI signatories have grown rapidly since inception, partly due to the fact that asset managers need to be a signatory in order to be eligible for some asset owners' investment mandates. Similarly, TCFD has had the attention of most investors as it was initiated by regulators and is perceived as likely to become mandatory in the near future.

Successful initiatives have changed the face of company sustainability reporting over the past 20 years. Key to this has been the Global Reporting Initiative (GRI) which was founded in 1997. The GRI database contains over 38 000 reports from 15 000 organisations (over 3 600 of which are based in the EU), all of which report using the GRI Standards.⁵⁶ The GRI has become the most widely used standards for sustainability reporting for companies worldwide. The GRI Standards continue to be updated and added to, including new topic based standards on Tax (2019) and Waste (2020).

The Sustainability Accounting Standards Board (SASB) was founded in 2011, initially with the primary aim of developing sustainability reporting standards for companies to use in filings to the US SEC. As SASB worked towards codification of its first full set of standards, released in 2018, it undertook extensive outreach to investors and widened its focus to companies worldwide. SASB has developed a unique set of 77 standards that cover each industry sector with industry-specific disclosure topics and related metrics. The most recent data from SASB shows that to date, there are 461 companies worldwide that have reported using the SASB metrics, of which 36 are domiciled in the

⁵⁶ 'GRI Sustainability Disclosure Database', Dashboard, Global Reporting Initiative, <https://database.globalreporting.org/>.

EU. There are a further 2 206 instances of companies worldwide, and 309 (or 14%) in the EU, that have made reference to the SASB standards in their public sustainability-related disclosures. Additionally, SASB works with sustainability-related rating, data and research providers via a licensing model, allowing providers to incorporate a SASB standards and data as an add-on to their existing or new product lines. Sustainability-related rating, data and research providers use the SASB standards to identify financially material sustainability-related topics and metrics for a given industry, which then supports them, for example, assign a sustainability-related rating.⁵⁷ The SASB standards are also licensed by asset managers and asset owners to support them develop unique sustainability-related scoring methodologies rather than relying solely on sustainability-related rating, data and research providers.

The CDP's information requests are backed by more than 500 investors worldwide with \$106 trillion in assets and completed by over 8 400 companies annually on climate change, water security and forests. There are 300 signatory investors in Europe with €41 trillion in assets and approximately 3,000 companies domiciled in the Europe disclose environmental data through the CDP, representing 75% of market capitalization and including 90% of the largest European companies.

⁵⁷ 'SASB's Role in ESG Indices', Market Use, SASB, <https://www.sasb.org/sasb-esg-indices/>. SASB describes its role in licensing to sustainability-related product and service providers on this webpage.

Part II: Classification of Providers and Products

2.1. Introduction

This part of the study identifies and classifies a variety of sustainability-related products and services and their providers with additional analysis provided on the following:

- **Terminology and Product Use:** The use of various terms in the classification of products and clarification on the use case for these products.
- **Business Models:** The product mix offered by providers and how those offerings are structured within the company.
- **Product Types** How products are defined, examples of product types and providers, the objective of the product, if and how a product measures sustainability and ESG factors, if the product is forward or backward looking, relevant fee structures and relevant EU regulations.
- **Fee Structures:** How products are purchased by users.
- **Conflicts of Interest:** Potential conflicts of interest across the business models and product offerings of sustainability-related product and service providers.
- **Codes of Conduct:** Themes across providers' codes of conduct.
- **Competitive Dynamics:** The level of competition across different providers and potential barriers to entry.
- **Employee Numbers:** The staff allocated to the preparation of sustainability-related products and services, their level of experience and the average number of companies/assets covered per analyst.

Information for this section derives from interviews and the survey conducted for this study with 38 product and service providers. Of these, 12 are headquartered in the European Union (France, Germany and the Netherlands), 9 elsewhere in Europe (UK and Switzerland), 14 in the United States, 2 in Canada, and 1 in Australia. See the section on Methodology and Annex 1 for further information and analysis on the survey respondents. This section also includes an analysis of public disclosures offered by product and service providers and further extensive desk-based research.

2.1 Terminology and Product Use

Terminology

No formalized naming structure exists across the market to describe sustainability-related products and services, and providers utilize different terms in different ways. This part of the report identifies nine main product and service types including: data, ratings, rankings, screening tools & services, news sentiment and controversy alerts or scores, benchmarks/indices, advisory services, impact solutions and sell-side research. These have been identified to be the most common types of product and services offering across the market. **Across all of these products and services, the terms ESG or sustainability are applied in various and inconsistent ways. For example, some rating providers such as MSCI and Sustainalytics call their rating products 'ESG Ratings', whereas Vigeo Eiris calls its rating product a 'Sustainability Rating'.**

These products and services also differ in how they apply the term ESG. Some products may be 'comprehensive' in terms of covering a full assessment of E, S and G issues, or they may only cover the E, the S, or the G or even a specific subtopics (such as climate as a subtopic for E and human rights as a subtopic for S) within one of those categories. Some providers may also create both comprehensive and topic specific offerings within one given product category – such as offering an ESG rating and separate ratings for E, S and G factors. Many providers that offer products across E, S and G will often market their climate and governance-specific product offerings separately. For example, MSCI, ISS and S&P all have examples of marketing their climate products as 'climate solutions'^{58,59} separately from the remainder of their ESG-related products due to specific interest in that topic.

For the purposes of this section of the report, all products and services identified are considered to be ESG or sustainability-related. As such, neither 'ESG' nor 'Sustainability' are added each time to describe the product unless referencing a specific product name where those terms are used. For example, data products are not described as 'ESG or sustainability-related data products' each time they are mentioned, instead they will be described simply as data products.

ESG or Sustainability Research

In the context of this report, the terms 'ESG research' and 'sustainability research' are considered to be umbrella terms that encompass all of the products and services described herein. Since the market does generally not distinguish 'research' as a separate product, it is not defined as such in this part of the report. While providers may have an 'ESG research' or 'sustainability research' division within the company, it is not common to sell 'research' as a distinct product. For example, MSCI has an 'ESG research' solutions structure within its business model, but does not sell an 'ESG Research' product. Instead MSCI sells a variety of products that constitute 'research' including data, ratings, rankings, controversy alerts and impact solutions. Aside from sell-side research the term 'research' is not typically used within the main product names across the market, so research is not defined as a separate product in this section.

Furthermore, any research conducted by a provider to create a product may be sold with that product but is typically not sold separately as 'research'. For example, ratings often include a multi-page report outlining the research and analysis the provider conducted to come up with the rating. This is then sold as a 'rating' product though, not a 'research' product. Similarly, a controversy report or screening tool is often named and sold as a 'controversy report' or 'screening tool or service', and not named as 'ESG research'.

Product and Service Use and Application

As referenced in Part I, how a user of these products and services defines what is 'sustainable' is up to them. One user may define sustainable or ESG investing in terms of long-term financial impact, and will use this definition to select which products to use. Another user may define sustainable or ESG investing with a focus on ESG performance, impact and benefit to society. Other users may not see financial and societal impact as separate and believe ESG issues are fundamentally integrated with the financial

⁵⁸ 'MSCI Climate Solutions', ESG, MSCI, <https://www.msci.com/zh/climate-solutions>.

⁵⁹ 'Climate Solutions', ESG, ISS, <https://www.issgovernance.com/esg/climate-solutions/>.

performance of a company or asset. The user's definition of sustainability and approach to investing will ultimately inform product selection.

While product and service providers may offer an objective for the product, ultimately the user decides how that product is used (where users are typically investors, asset managers, investment banks and sometimes companies). The user determines whether the product is used to assess sustainability-related performance, inform a responsible investing strategy or a financial risk assessment, or any other purpose.

2.2. Provider Business Models

Provider business models broadly fall into three categories:

- **For-profit large providers that offer multiple sustainability-related products and services, as well as non-sustainability-related products and services** (MSCI, S&P, Moody's)
- **For-profit boutique providers that offer speciality sustainability-related products and services** (Sustainometric, Solactive, RepRisk, Truvalue Labs (prior to October 2020 acquisition by FactSet), Sustainable Value Investor, Carbon 4 Finance, ISS prior to the November 2020 acquisition by Deutsche Börse AG)
- **Non-profit providers that offer sustainability-related products and services** (e.g. CDP, ShareAction WDI, As You Sow)

Over the past decade, larger data providers, brokerage organisations and credit ratings agencies have entered the market typically through the acquisition of purely sustainability-related providers.⁶⁰ Larger firms or established financial product and service providers have been acquiring smaller specialty sustainability firms in order to expand their product mix and expertise. These mergers and acquisitions (see Part 1, Figure 3) have resulted in the current state of the market where several larger providers dominate the market and offer multiple products.

The business model and governance structure for how multiple products and acquisitions are managed across a single provider varies by firm, and the structure becomes more complex with each new acquisition. As larger providers have acquired smaller firms over the years, the geographic locations and ownership dynamics have also shifted, resulting in the current market condition where the majority of large product and service providers are primarily run by companies headquartered in the USA, or at least outside of the EU.

The below table outlines the headquarters and geographic locations of several of the largest sustainability-related product and service providers. These providers were selected based on the coverage of assessed companies that they offer. All of the providers in the table below have active offices in EU member states even if their headquarters are located elsewhere, all cover EU-based companies and all serve clients in the EU. Where possible we have included specific numbers of European coverage.

⁶⁰ E. Avetisyan and K. Hockerts, 'The Consolidation of the ESG Rating Industry as an Enactment of Institutional Retrogression', *Business Strategy and the Environment* 26, no. 3 (March 2017): 316-330, DOI: 10.1002/bse.1919.

Table 7: Key Providers, Headquarters and Coverage

Parent company name and headquarters	Key subsidiaries, recent acquisitions and office locations	Coverage of assessed companies
Bloomberg – New York, USA	Bloomberg's European Headquarters are located in London. Bloomberg also has an office in Frankfurt.	11 700 companies across over 102 countries covering at least 76% and up to 100% of market capitalization across most European Union member states. Bloomberg has slightly less coverage of market capitalization (51%-75%) in Croatia, Slovenia Romania, Poland and Latvia, and low coverage (26%-50% of market capitalization) in only two European countries, Lithuania and Estonia.
CDP – London, UK	<p>CDP Worldwide (Europe) GmbH - 'CDP Europe' - is a wholly owned subsidiary of CDP Europe AISBL, a charity based in Brussels, Belgium, directed by a 3-member Board of Trustees. Headquartered in Berlin, Germany, CDP Europe is a charity under German law registered at local court of Charlottenburg with number HRB119156 B since April 2009, and registered on the EU Transparency Register since 2012. CDP Europe has an operating subsidiary, CDP Europe - Services GmbH, whose purpose is to generate funds from service-based activities to support the charity's activities. CDP Europe's registered address is: CDP c/o WeWork, Kemperplatz 1, 10785 Berlin, Germany.</p> <p>CDP Europe staff members are based in Berlin (HQ), Brussels, Stockholm and Geneva.</p>	<p>8 400 companies in 2019, representing over 50% of global market capitalization.</p> <p>CDP Europe's work covers the 27 EU member states, in addition to EFTA countries Norway, Switzerland, Iceland and Liechtenstein. CDP Worldwide's London headquarters manages CDP operations in the United Kingdom.</p>
London Stock Exchange - London, UK	<p>FTSE Russell – London, UK. FTSE also has offices in Paris, Frankfurt, Madrid and Milan.</p> <p>Beyond Ratings - Paris, France (acquired June, 2019)</p>	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.

Parent company name and headquarters	Key subsidiaries, recent acquisitions and office locations	Coverage of assessed companies
ISS – Frankfurt, Germany⁶¹	Oekom – Munich, Germany (acquired March, 2018) ISS also has offices in Barcelona, Berlin, Brussels, Haar, Paris and Stockholm	ESG Corporate Rating (formerly Oekom Research): More than 5 000 companies from various international and national indices QualityScore: Approximately 4 700 publicly traded companies in the Americas, EMEA, and Australasia regions
MSCI – New York, NY, USA	Carbon Delta – Zurich, Switzerland (acquired September 2019) MSCI has offices in Amsterdam, Barcelona, Budapest, Frankfurt, Milan, Paris, Potsdam and Sweden	8 500 companies (14 000 companies including subsidiaries) and more than 680 000 equity and fixed income securities globally
Refinitiv – London, UK	Formed from Thomson Reuters, Toronto, Canada, in October 2018 Refinitiv has 32 offices across Europe	9 000 companies globally, with over 2 100 in Europe
RepRisk- Zurich, Switzerland	RepRisk's EMEA Hub office is located in Berlin, and RepRisk has additional European offices in Amsterdam, Milan and Paris	Over 160 000 public and private companies across all countries
S&P – New York, NY, USA	SAM (of RobecoSAM) – Zurich, Switzerland (acquired November, 2019) Trucost – London, UK (acquired October, 2016) with an office in Paris, France	Over 7 300 companies around the world 2019 saw 360 European over of 1 386 total companies participate in the SAM CSA
Morningstar – Chicago, IL, USA	Sustainalytics – Amsterdam, Netherlands (acquired in April 2020) Sustainalytics also has offices in Brussels, Copenhagen, Paris, Frankfurt, Zielona Gora, Bucharest, Timisoara and Stockholm	Companies from all major global indices with coverage of approximately 11 000 companies across 42 sectors

⁶¹ Note that in November 2020, it was announced that Deutsche Börse AG had acquired a majority stake in ISS. This has resulted in a change in parent company headquarters from Maryland, USA, to Frankfurt, Germany.

Parent company name and headquarters	Key subsidiaries, recent acquisitions and office locations	Coverage of assessed companies
Moody's	Vigeo Eiris – Bagnolet, France (Moody's acquired a majority stake in April, 2019) Four Twenty Seven – Berkeley, CA, USA (Moody's acquired a majority stake in October, 2019)	Over 5 000 companies from Europe, North America, Asia Pacific and Emerging Market regions

Each provider has its own governance structure. To demonstrate the variety of how some of these business structures function, the business models of ISS, MSCI, S&P, Sustainalytics and CDP, were further analysed. These providers were selected on the basis that they are large and publically disclosure relevant information on their business model. They all have offices in the EU, serve clients in the EU and cover EU-domiciled companies. This analysis was based on publicly available information on each provider and highlights the diversity of business models and approaches to governance and fee structures.

2.2.1. ISS

Business Model

Institutional Shareholder Services (ISS) comprises nine businesses that sell “corporate governance and responsible investment solutions, market intelligence and fund services, and events and editorial content for institutional investors and corporations”.⁶² Four are part of a wholly owned subsidiary Strategic Insight Holdings, including: ISS Market Intelligence, ISS Transaction Cost Analysis, ISS Fund Services and ISS Media. The other five are each separately branded, and employees are housed within one of the businesses –Governance, ESG, Securities Class Action Services, Economic Value Added and Corporate Solutions (ICS). These business units are outlined in the table below, with the dark grey shading indicating those business units that offer sustainability-related products and services.

ISS sells sustainability-related products and services to investors through its ESG business unit. ICS delivers products to companies. There is a firewall between these parts of the business as outlined in the section on Conflicts of Interest.

Table 8: The Nine Businesses of ISS (as described on their website)

Business		Business Description
Strategic Insight Holdings	Market Intelligence	Market Intelligence (MI) provides critical data and insight to global asset managers, insurance companies and distributors to help them make informed, strategic decisions to manage and grow their business.

⁶² 'About ISS', About, <https://www.issgovernance.com/about/about-iss/#1570776311994-db534a1e-7bb2>.

	Transaction Cost Analysis	Transaction Cost Analysis (TCA) provides through its LiquidMetrix unit a wide range of offerings, including TCA, execution quality, market abuse and pre-trade analysis services across every public order and trade executed on European venues.
	Fund Services	Fund Services is comprised of FWW, the leading German fund data disseminator and fund data distributor. Through the operation and licensing of data from its investment fund database, FWW helps investment fund advisors and investors make thoughtful investment decisions through the provision of transparent, up-to-date, and correct fund information across 1,500 data records on more than 33,000 investment fund share classes.
	Media	Media comprises a highly regarded set of publications, digital assets, and research known for their editorial integrity, objectivity, and leadership within the industry as well as a conference business in the retirement segment.
Governance		Governance offerings include objective governance research and recommendations, and end-to-end proxy voting and distribution solutions.
ESG		ESG solutions enable investors to develop and integrate responsible investing policies and practices, engage on responsible investment issues, and monitor portfolio company practices through screening solutions. It also provides climate data, analytics, and advisory services to help financial market participants understand, measure, and act on climate-related risks across all asset classes. In addition, ESG solutions cover corporate and country ESG research and ratings enabling its clients to identify material social and environmental risks and opportunities. <i>See additional table below with further detail on ISS ESG products.</i>
Securities Class Action Services		Clients can access turnkey securities class-action claims management that is provided by Securities Class Action Services, LLC.
Economic Value Added		ISS EVA provides institutions with an established standard in measuring, analyzing, projecting, valuing, and discounting a firm's underlying economic profit through the provision of Economic Value Added (EVA).
Corporate Solutions		Corporate solutions help companies design and manage their corporate governance, executive compensation, and sustainability programs to align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering best-in-class data, tools, and advisory services.

Sustainability and ESG-Related Products and Fee Structures

The Governance and ESG businesses address corporate governance and responsible investment solutions, including ESG products. ISS Governance provides objective governance research and recommendations, and end-to-end proxy voting and distribution solutions, defined as advisory services in the products section of this report. ISS ESG provides 24 products across 7 different categories of services (see Figure 7 below): Advisory services, screening and controversies, engagement, ESG ratings and

rankings, impacts and UN SDGs, climate solutions and ESG index solutions.⁶³ This full suite of services is the result of six acquisitions over the last decade. Within ISS ESG, there is a dedicated climate team given the suite of services offered.⁶⁴ It is unclear if other sub-services have dedicated teams as well.

⁶³ 'Responsible Investment Solutions', ISS ESG, <https://www.issgovernance.com/file/products/sheet-iss-esg.pdf>.

⁶⁴ 'A Custom-Built Approach to ESG', Guide to ESG Data Providers, Environmental Finance, <https://www.environmental-finance.com/content/guides/esg-guide-corporate-statement.html?vendorid=27&editionid=3&corpid=17>.



Figure 7: ISS ESG Solutions Products and Services

In its due diligence documents, ISS notes that fees to clients range from USD 5 000 to above USD 1 million in part depending on the volume of products consumed across all of its different services.⁶⁵ Clients can purchase the content across a number of channels –

⁶⁵ ISS, Institutional Shareholder Services Inc. Form ADV Part 2A, March 2020, <https://www.issgovernance.com/file/duediligence/iss-adv-part-2a-march-2020.pdf>.

including third-party channels Factset and Bloomberg, as well as bespoke data feeds, API delivery, and multiple online custom data tools through various applications.

2.2.2. MSCI

Business Model

MSCI has six major 'solutions': Analytics, Factor Investing, Indexes, ESG Investing, Real Estate Investing and MSCI Beon as outlined in Table 9 below. The ESG Investing solution set houses the majority of ESG related products and services, as indicated by the darker grey shading in the table below. MSCI does not sell advisory services to the companies it analyses.

Table 9: MSCI Solutions (adapted from their website)⁶⁶

Solution	Solution Description
Analytics	MSCI's Analytics products offer institutional investors an integrated view of risk and return. Our research-enhanced content and tools help institutional investors make better investment decisions, enhancing their understanding and analysis of market, credit, liquidity and counterparty risk across all major asset classes, spanning short, medium and long-term time horizons.
Factor Investing	In the realm of investing, a factor is any characteristic that can explain the risk and return performance of an asset. For over 40 years MSCI, starting with Barra, has researched factors to determine their effects on long term equity performance. MSCI has developed Factor Indexes and Factor Models in consultation with the world's largest investors and has research backed by four decades of Factor data compiled by a 200+ global research team.
Indexes	MSCI indexes facilitate the construction and monitoring of portfolios in a cohesive and complete manner, avoiding benchmark misfit. At the core is its Modern Index Strategy, which provides consistent treatment across all markets. MSCI also licenses its indexes for exchange traded funds and exchange-listed futures and options.
ESG Investing (ESG Research)	<p>ESG Ratings and Research: MSCI helps institutional investors understand ESG-driven risk and opportunities.</p> <p>ESG Fund Ratings: MSCI ESG Fund Ratings aim to measure the resilience of mutual funds and ETFs to long term risks and opportunities arising from environmental, social and governance (ESG) issues.</p> <p>ESG Indexes: MSCI's suite of over 1,500 equity and fixed income ESG indexes 2 are designed to represent some of the most prevalent ESG strategies.</p> <p>ESG and Analytics: Explore ESG exposures on 650,000 securities and 8 million derivatives to support security selection, portfolio construction, and much more.</p> <p>Climate Solutions: MSCI offers a suite of tools to help institutional investors benchmark, measure and manage portfolio exposure to climate risk and identify low carbon investment opportunities.</p> <p>Impact Solutions: A suite of tools designed to help investors seeking to measure, manage and report on impact in their portfolios and investments.</p>
Real Estate Investing	MSCI's Real Estate service is designed to deliver analytical solutions, objective indexes and benchmarks and highly relevant research, so you can make better decisions throughout the investment process.
MSCI Beon	MSCI Beon will deliver MSCI's high-quality content, risk analytics, and portfolio management tools in one place.

⁶⁶ MSCI, <https://www.msci.com/>.

Sustainability and ESG-Related Products and Fee Structures

The majority of MSCI's ESG products and services are housed within its ESG Investing solutions as outlined below.

Table 10: MSCI ESG Products and Services (adapted from their website)⁶⁷

Product	Product Description
ESG Governance Metrics	As long-term institutional investors, asset owners often look to managers to more fully assess governance-related risks.
ESG Controversies	We provide timely and consistent assessments of ESG controversies involving publicly traded companies and fixed income issuers.
ESG Screening	Our business involvement screening research enables institutional investors to satisfy client investment mandates, while managing potential ESG portfolio risks.
Impact Solutions	A suite of tools designed to help investors seeking to measure, manage and report on impact in their portfolios and investments.
Climate Solutions	We offer a suite of tools to help institutional investors benchmark, measure and manage portfolio exposure to climate risks and opportunities.
ESG Fund Ratings	We provide the critical transparency necessary to understand, measure and report on the ESG characteristics of more than 32,000 mutual funds and ETFs.
ESG AGR Model	Our accounting and governance risk model is designed to help institutional investors, insurers and other financial institutions understand and manage accounting risk.
ESG Fixed Income Solutions	ESG Fixed Income Solutions are designed for institutional investors looking to integrate ESG factors into the investment process, identify ESG-driven investment risks, or screen companies in alignment with values or mandates.
ESG Reporting Service	The service is designed to make reporting on the ESG characteristics of portfolios easier, more comprehensive, and more frequent.

As outlined in their 2020 Form 10-K, MSCI's principle business model is licensing annual, recurring subscriptions for its Index, Analytics and ESG products and services.⁶⁸ MSCI also receives a portion of fees through clients using MSCI indexes for their own index-linked investment products based on the client's AUM. For its ESG services, MSCI is modularizing its offerings to clients.

2.2.3. S&P

Business Model

Standard and Poor's (S&P) provides data and insights for investors, governments and companies to make decisions. S&P has four major divisions, Global Ratings, Global Market Intelligence, Dow Jones Indices and S&P Global Platts which each provide capabilities in data and analytics, research and commentary, benchmarks, and ESG. Credit ratings are only provided by Ratings and Market Intelligence. S&P has a number of acquisitions that sit in various parts of the business and provide specific products or information. SAM CSA, a recent acquisition from Robeco, sits within S&P Global Ratings,

⁶⁷ 'ESG Investing', MSCI, <https://www.msci.com/esg-investing>.

⁶⁸ https://www.sec.gov/ix?doc=/Archives/edgar/data/1408198/000156459020004992/msci-10k_20191231.htm

and feeds all four divisions with ESG intelligence.⁶⁹ Trucost (headquartered in London, UK), a 2016 acquisition, sits within Global Market Intelligence but is an affiliate, with its own branding and employee structure.⁷⁰ All four divisions offer some kind of ESG-related product or services for investors, governments and companies.

Table 11: S&P Divisions (adapted from their website)⁷¹

Divisions	Division Description
Global Ratings	Credit Ratings, research, and insights essential to driving growth and transparency. (Includes SAM CSA)
Global Market Intelligence	Data and unrivaled insight for smarter and more informed business decisions. (Includes Trucost)
Dow Jones Indices	Iconic and innovative index solutions for the global investment community.
Global Platts	Leading information and benchmark prices for the commodities and energy markets.

Although companies may purchase information from S&P, only Trucost currently offers corporate advisory services for companies along with its portfolio of sustainability-related products and services to investors.⁷²

Sustainability and ESG-Related Products and Fee Structures

S&P's ESG solutions are integrated across the four divisions in various capacities and are packaged broadly as Evaluations, Benchmarks and S&P DJI ESG Scores, Data and Analytics, and Research.⁷³ ESG factors are incorporated in the credit ratings provided when deemed material by S&P. ESG Benchmarks and S&P DJSI ESG Scores include 150 ESG indices as well as performance scores, which feed into a number of ESG indexes, and are derived from SAM CSA. ESG Data and Analytics is covered by three of the divisions; Global Market Intelligence provides insight on sustainable investing trends, which includes Trucost products; Global Platts provides energy scenario planning and analysis on pathways towards a low carbon transition; Global Ratings provides products on ESG risk. ESG Research covers the publicly available commentaries and reports published across the four different divisions.

⁶⁹ 'A Sustainable Future Post COVID', Guide to ESG Data Providers, Environmental Finance, <https://www.environmental-finance.com/content/guides/esg-guide-corporate-statement.html?vendorid=44&editionid=3&corpid=18>.

⁷⁰ 'Our Team', About Trucost, S&P Global, <https://www.trucost.com/about-trucost/our-team/>.

⁷¹ S&P Global, <https://www.spglobal.com/en/>.

⁷² 'Corporate Advisory', Trucost, S&P Global, <https://www.trucost.com/corporate-advisory/>.

⁷³ S&P Global, *ESG Intelligence to Power the Markets of the Future*, July 2019, <https://www.spglobal.com/en/capabilities/spglobal-esg-intelligence-to-power-the-markets-of-the-future.pdf>.

Table 12: S&P ESG Solutions and Products (adapted from their website)⁷⁴

Evaluations	ESG Benchmarks and S&P DJI ESG Scores	ESG Data and Analytics	ESG Research
Global Ratings	Dow Jones Indices	Global Ratings	Global Ratings
Credit ratings	Core ESG Indices	ESG Risk products	Global Market Intelligence
ESG Evaluation	Climate Aligned Indices	S&P Global Market Intelligence	Dow Jones Indices
Green Evaluation	Thematic ESG Indices	Trucost products	Global Platts
Trucost SDG Evaluation	Fixed Income Indices	Global Platts	
	S&P DJI ESG Scores (SAM CSA)	Data and research	
		Trucost content and tools	
		ESG Risk Atlas	

S&P notes that its divisions collaborate to support clients across its suite of ESG services for both companies and investors. S&P is also focused on enabling investors to access ESG information on the same platforms as core financial information.⁷⁵

Trucost's products are housed in two categories: capital markets and corporate advisory services. Within capital markets, Trucost offers "environmental data, insights and tools for investment decision making." Those include (as outlined in the below table) carbon and natural capital investment metrics that also drive investment indices and products, environmental analytics and auditing, positive impact assessment, verification of green bonds.⁷⁶ Corporate advisory services support companies to measure environment and social impacts, create and market resource-efficient products, drive green procurement policies, identify environmental and social benefits, and provide assurance and reporting.⁷⁷

Table 13: Trucost Products and Services (adapted from their website)⁷⁸

Product Category (by buyer type)	Products	Product Description
Capital Markets	Data and analytics	We provide the gold standard carbon and natural capital investment metrics that financial institutions need to assess the risks and opportunities presented by climate change, drive innovation, and capitalize on the transition to a low carbon, resource efficient economy.
	Portfolio footprints and audits	Trucost is a pioneer of portfolio environmental analytics, from publishing the first carbon audit of an equity portfolio in 2005 to our extensive analysis of risks and opportunities today for clients with over \$20 trillion in assets.

⁷⁴ 'ESG Solutions', Capabilities, S&P Global, <https://www.spglobal.com/en/capabilities/esg-solutions>.

⁷⁵ 'A Sustainable Future Post COVID', Guide to ESG data providers, Environmental Finance, <https://www.environmental-finance.com/content/guides/esg-guide-corporate-statement.html?vendorid=44&editionid=3&corpId=18>.

⁷⁶ 'Capital Markets', Trucost, S&P Global, <https://www.trucost.com/capital-markets/>.

⁷⁷ 'Corporate Advisory', Trucost, S&P Global, <https://www.trucost.com/corporate-advisory/>.

⁷⁸ Trucost, <https://www.trucost.com/>.

Product Category (by buyer type)	Products	Product Description
	Quantifying positive impacts	Trucost is increasingly asked to assess the positive impact of investments – from the ‘greenness’ of capital allocation and its contribution to a low carbon transition to quantified carbon savings at an asset or portfolio level per \$m invested.
	Green bonds	Verification of green bonds is critical to ensure the rapidly growing market delivers on its potential to be a major capital driver of the transition to a low carbon, resource efficient economy.
	Investment products	Our gold standard carbon and natural capital investment metrics drive investment indices and products from leading institutions that deliver financial performance alongside reduced environmental risk.
	Carbon pricing investor toolkit	To help investors understand their portfolio exposure, Trucost has quantified current pricing schemes in over 130 regions together with potential future carbon pricing scenarios required to limit global warming to two degrees Celsius.
Corporate Advisory Services	Impact measurement	Our gold standard data, tools and insight enable companies to measure environmental and social impacts in a way that is efficient and robust, to inform strategic decision making and reporting.
	Natural, social and human capital valuation	Natural capital refers to the natural resources and services provided by the planet on which companies depend, such as clean air and water, a stable climate and a host of raw material inputs.
	Product innovation	Creating and marketing resource-efficient products that minimize waste and pollution is essential for companies to grow in a low-carbon, resource-constrained economy.
	Sustainable supply chains	Our sustainable supply chain service provides the data-driven insights, tools and support companies need to deliver green procurement policies and strategies that drive long-term business resilience and growth.
	Environmental and social benefit analysis	Our gold standard data, tools and insight help companies to identify the environmental and social benefits of business strategies, products and technologies.

Product Category (by buyer type)	Products	Product Description
	Assurance and reporting	Our assurance and reporting services ensure you achieve best practice reporting standards.
	ESG Data Feeds	To help companies to embed ESG considerations in performance dashboards, ratings and rankings and supply chain management, Trucost data is available direct into technology platforms and management systems.

2.2.4. Sustainalytics, a Morningstar Company

Business Model

Sustainalytics, headquartered in Amsterdam, provides ESG and Corporate Governance research and ratings. The company was acquired by Morningstar in April 2020.⁷⁹ Sustainalytics and Morningstar (headquartered in Chicago) have been partners since 2016, Sustainalytics company-level ESG ratings feed into MSCI funds, indices and sustainable portfolio analytics including carbon metrics and controversial product involvement data. The expectation is further integration of products and services over the next few years.

Sustainalytics currently provides sustainability-related products and services for financial institutions across a number of major categories: ESG Integration, Positive Impact, Compliance and Screening, Platforms and Delivery Channels, Index Services, Engagement and Voting Services, and Green and Sustainable Bonds and ESG Ratings License. Though targeted towards investors, Sustainalytics does enable companies to purchase the ESG Risk Ratings License.⁸⁰

The Sustainalytics Sustainable Finance Solutions group operates as a separate, independent team within Sustainalytics in order to provide a suite of product and services 'specifically designed to help banks, underwriters, companies, government entities, and other debt issuers.'⁸¹

Sustainability and ESG-Related Products and Fee Structures

Sustainalytics products are marketed to financial institutions, bond issuers, civil society and academia. The bulk of their products are for financial institutions across an array of product types.

⁷⁹ 'Morningstar to Acquire Sustainalytics and Expand Access to ESG Research, Data, and Analytics for Investors Worldwide.' Newsroom, Morningstar. April 21, 2020. <https://newsroom.morningstar.com/newsroom/news-archive/press-release-details/2020/Morningstar-to-Acquire-Sustainalytics-and-Expand-Access-to-ESG-Research-Data-and-Analytics-for-Investors-Worldwide/default.aspx>.

⁸⁰ 'What is an ESG Risk Rating License', Sustainable Finance Solutions, Sustainalytics, <https://www.sustainalytics.com/sustainable-finance/esg-rating-license/>.

⁸¹ 'About Us', Sustainable Finance Solutions, Sustainalytics, <https://www.sustainalytics.com/sustainable-finance/about-us/#el-bbb08fbb>.

Table 14: Sustainalytics Products and Services (adapted from their website)⁸²

Product Category (by buyer type)	Product Type	Product Name	Product Description
Financial Institutions	ESG Integration	ESG Research and Ratings	Integrate our company-level ESG research and ratings into key investment processes
		ESG Data	Develop ESG insights leveraging our comprehensive ESG data set
		Corporate Governance Research & Ratings	Monitor companies year-round and assess corporate governance-related investment risks and opportunities
		Carbon Risk Ratings	Align your portfolio to the future low-carbon economy
		Country Risk Ratings	Complement traditional sovereign bond analyses to better understand reputational risks, long-term economic prospects and creditworthiness
	Positive Impact	Sustainable Products Research	Identify companies that derive revenue from sustainable products and services
	Compliance and Screening	Global Standards Screening	Identify companies that breach, or risk breaching, the United Nation's Global Compact
		Product Involvement	Identify companies involved in a range of products, services and business activities
		Controversies Research	Identify companies involved in incidents and events that may negatively impact stakeholders or the environment

⁸² Sustainalytics, <https://www.sustainalytics.com/>

Product Category (by buyer type)	Product Type	Product Name	Product Description
		Weapons Research	<p>Controversial Weapons Radar: Identify companies involved in weapons with a disproportionate and indiscriminate impact on civilians</p> <p>Arms Trade Research: Identify publicly-listed companies that sell arms to sanctioned countries or countries with a high risk of violence against civilians</p>
		Country Screening	Identify countries in breach of UN, US and EU sanctions criteria and manage associated reputational risks in your sovereign bond portfolio
		Human Rights Radar	Identify and understand companies' involvement in countries and territories where there is a high risk of human rights violation
	Engagement Services	Global Standards Engagement	An incident-driven engagement service that identifies companies not in compliance with accepted international conventions
		Thematic Engagement	A proactive, impact-oriented engagement service that focuses on addressing critical ESG issues
		Material Risk Engagement	Manage financially-material ESG issues in high-risk companies
	Delivery Channels	Global Access	Access our research through our user-friendly investor interface with easy to use screening and reporting tools
		API and Data Feeds	Access our research through an internal or a third-party system of your choice
		Third Party Platforms	Access our research through a third-party system of your choice, including Bloomberg, Factset and Morningstar Direct
	Index Services	Index Research Services	Construct and maintain ESG and sustainability indexes with our research and support

Product Category (by buyer type)	Product Type	Product Name	Product Description
		Sustainalytics' Indexes	View the indexes we created to track the most sustainable companies
		Supported Indexes and Passive Vehicles	View ESG-themed indexes and passive funds that incorporate our research
	ESG Rating License	ESG Rating License	License Sustainalytics' company ESG Rating for capital raising activities
Civil Society and Academia	Sustainability Research & Ratings	Sustainability Research & Ratings	Tap into Sustainalytics' research capabilities to create your own sustainability rating or support a large research project

Sustainalytics Sustainable Finance Solutions offers a separate set of products for companies and lenders. The products and services support the development and the marketing of green, social and sustainability bond frameworks.⁸³ The Sustainalytics fee structure mainly consists of licensing and subscriptions for its products and services

CDP

Business Model

As an international non-profit, CDP Global is comprised of three regional non-profits: CDP Worldwide Group, CDP North America, Inc. and CDP Europe AISBL. CDP manages a global environmental disclosure system at the request of investors, purchasers and city stakeholders. The platform supports thousands of companies, cities, states and regions in measuring, managing and reporting on climate change, water security and deforestation risks and opportunities.⁸⁴ CDP Europe describes itself as such:

CDP Worldwide (Europe) gGmbH - 'CDP Europe' - is a wholly owned subsidiary of CDP Europe AISBL, a charity based in Brussels, Belgium, directed by a 3-member Board of Trustees. Headquartered in Berlin, Germany, CDP Europe is a charity under German law registered at local court of Charlottenburg with number HRB119156 B since April 2009, and registered on the EU Transparency Register since 2012. CDP Europe has an operating subsidiary, CDP Europe - Services GmbH, whose purpose is to generate funds from service-based activities to support the charity's activities. CDP Europe staff members are based in Berlin (HQ), Brussels, Stockholm and Geneva. Its work covers the 27 EU member states, in addition to EFTA countries Norway, Switzerland, Iceland and

⁸³ 'About Us', Sustainable Finance Solutions, Sustainalytics, <https://www.sustainalytics.com/sustainable-finance/about-us/#el-bbb08fbb>.

⁸⁴ 'About Us', CDP, <https://www.cdp.net/en/info/about-us>.

Liechtenstein. CDP Worldwide's London headquarters manages CDP operations in the United Kingdom.⁸⁵

As a non-profit, CDP's funding is a combination of government and philanthropic grant, and a mission-complementary fee for service.⁸⁶ Company and investor contributions help maintain the disclosure system, and come in the form of administrative and on-demand scoring fees. All investors and companies using the platform make a subsidized contribution to CDP to partially cover operating costs; companies and investors have the option to pay a higher contribution to cover the full cost of the disclosure system or an enhanced contribution to further support CDP.

Sustainability and ESG Related Products and Fee Structures

CDP offers investors the ability to request relevant environmental information on one platform from companies; CDP collects, curates and shares the data for investors.⁸⁷ To gain to the database, investors sign on as a CDP investor signatory, which comes with an administrative fee of USD 1,475 for investors with more than USD 1bn of assets, and USD 975 for investors with less than USD 1bn of assets. Investors can additionally access modelled scope 1, 2 and 3 emissions data for 5 500 companies including MSCI ACWI and public high-emitting companies for an additional fee.

⁸⁵ 'Governance,' CDP, <https://www.cdp.net/en/info/governance>.

⁸⁶ 'Finance,' CDP, <https://www.cdp.net/en/info/finance/europe>.

⁸⁷ 'Investors,' CDP, <https://www.cdp.net/en/investor>.

Table 15: CDP Investor Fees and Benefits (adapted from the CDP website)⁸⁸

Fees	Signatory Benefits
USD 1 475 for investor with more than USD 1bn of assets	Promote industrial-scale environmental disclosure and engagement, aligned with the TCFD
USD 975 for investors with less than USD 1bn of assets	Regular disclosure status updates during the disclosure period
Outside of North America, Europe and Japan there is a different fee structure	Ability to opt-in to a global non-discloser campaign to encourage better disclosure in the next CDP disclosure period
	Help satisfy PRI Principles 1-4; relating to ESG investment analysis, active ownership, corporate disclosure and investor collaboration
	Access to current and historical company questionnaire responses; ability to export to Excel
	Access all company CDP scores; ability to export to Excel
	Public recognition of your commitment to engaging with companies on environmental issues
	Receive newsletters on the latest developments across CDP's programs worldwide and other news relating to CDP's work
	Access CDP emissions data and scores through Bloomberg

In 2016, CDP introduced an administrative fee for companies responding to the survey as well – an annual fee with a tiered price and benefits as outlined below.⁸⁹

Table 16: CDP Company Fees and Benefits (adapted from their website)⁹⁰

Fee	Benefits
Subsidized contribution (€925)	Report through CDP platform Use CDP suite of tools (reporting frameworks and guidance) Communications opportunities resulting from disclosing through CDP
Standard contribution (€2 475)	<i>Subsidized contribution benefits plus:</i> Pre-paid entry / priority registration to one regional CDP event

⁸⁸ Ibid.

⁸⁹ 'Administrative Fee', FAQ, CDP, <https://www.cdp.net/en/info/admin-fee-faq>.

⁹⁰ Ibid.

Enhanced contribution (€6 000)	<p><i>Enhanced contribution benefits plus:</i></p> <p>Quote from CDP Director for use in your sustainability communications</p> <p>Increased access to 100 company responses of your choice</p> <p>Compare yourself 10 peer companies with detailed CDP Benchmarking Report</p> <p>If applicable, free 1-hour consultation with relevant CDP accredited solutions providers</p> <p>Complementary screening of your top 50 suppliers to understand environmental action in your supply chain</p>
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CDP also offers a Reporter Services membership, which supports companies with disclosure through data, analytics, and insights. This service helps companies better understand the CDP methodology, their current score, and how they can improve their score.⁹¹ Potential conflicts of interest are addressed in the following section.

Some of CDP's data is also publicly available in line with CDP's mission of increasing environmental data transparency to create change.

2.3. EU-headquartered providers

There are several providers of sustainability related product and services that are headquartered in the EU. The majority of these are significantly smaller in size than the larger providers featured in the preceding section of this report. Some are specialized in what they provide (for example, Carbon 4 Finance) whereas others provide sustainability-related products and services as part of a much wider financial service offering (for example, Kepler Cheuvreux). It is estimated that there are between 30 and 40 sustainability-related rating, data and research providers with headquarters in the EU in total, however, it should be noted that there is not a comprehensive listing of such providers available, and given the market is in a dynamic state, with new entrants emerging and consolidation across existing providers, it is difficult to provide an accurate and up-to-date picture on the size of the market. Table 17 below provides details of selected sustainability-related rating, data and research providers with headquarters in the EU, based on desk-based research and information provided to the PRI through Transparency Reports by signatories.

⁹¹ CDP, *How Can CDP Reporter Services Help You?*, 2020, https://6fefcbb86e61af1b2fc4-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/comfy/cms/files/files/000/003/636/original/CDP_Reporter_Services_Brochure_2020.pdf.

Table 17: Selected Sustainability-Related Rating, Data and Research Providers with Headquarters in the EU

Provider name and headquarters	Related Products and Services ⁹²	Estimated Size ⁹³	Description and further details
Sustainometric, Netherlands	ESG research ESG data	25 FTE	Provider of customized ESG/sustainability research and advice to investors, ESG database and index providers, thematic raters, and companies.
The 2° Investing Initiative (2DII), France	ESG research	45 FTE	An international, non-profit think tank working to align financial markets and regulations with the Paris Agreement goals.
EthiFinance, France (now part of Qivalio)	ESG rating ESG indices Raw data Analysis	15 FTE	An ESG research and consulting agency that assists investors and corporates in their management of sustainability risks and opportunities. Its Investor Solutions help investors to integrate ESG considerations into their asset management process. EthiFinance considers itself to be the European leader in ESG research on Small & Medium-sized enterprises (SMEs). Gaia Rating is used for listed companies and OneTrack for unlisted assets.
Solactive, Germany	Index Provider	169 FTE	Benchmark administrator operating globally, developing tailor-made and multi-asset class index solutions, including ESG indices.
Qivalio, France	ESG rating ESG research	40 FTE	An innovative European group providing rating, research and consulting services in the field of sustainable finance.
Sustainable Value Investors, Italy	ESG ratings Analysis Benchmarking reports	3 FTE	A service provider which offers research and advisory for ESG integration and Impact Investing. Specialized in ESG ratings for public and private companies (using a proprietary methodology), conducting ESG portfolio screening of Private Equity, Real Estate and Alternatives Funds and developing ESG policies and monitoring reports for asset management and asset owners.

⁹² Products and services as indicated in the most recent PRI Transparency Report response available, or as described on the organisation website

⁹³ Size as indicates by the approximate number of staff in each organisation in full-time equivalents (FTE) as reported to the PRI in the most recent Transparency Report response available, or as reported on the organisation website

Provider name and headquarters	Related Products and Services ⁹²	Estimated Size ⁹³	Description and further details
ECPI, Luxembourg	ESG ratings ESG indices	15 FTE	Operates a proprietary ESG research model. In July 2019, ECPI Rating & Index businesses have been acquired by StatPro Group plc (UK) - a provider of cloud-based portfolio analysis and asset pricing services for the global asset management industry, which has subsequently been acquired by US-based software firm Confluence Technologies.
Kepler Cheuvreux, France	Analysis Benchmarking reports	550 FTE	A leading independent European financial services company specialized in advisory services and intermediation to the investment management industry. Kepler Cheuvreux integrates ESG as an equity focused core strength in its research offering. Key ESG products are thematic, company level and bespoke research with regular theme trackers.
Novethic, France	ESG research 'Greenfin' label for investment funds	18 FTE	Novethic is a subsidiary of the Caisse des Dépôts Group.
Carbon 4 Finance, France	Raw data and analysis, with a focus on carbon and climate change	40 FTE	Has developed the Carbon Impact Analytics (CIA) and the Climate Risk & Impact Screening (CRIS) methodologies
Forum Ethibel, Belgium	ESG indices ESG research and analysis	4 FTE	A Belgian non-profit organisation and recognised as an expert in rating, independent audit and certification of financial and non-financial products and services that meet ESG and ethical standards.
Rating-Agentur Expert RA GmbH (RAEX-Europe), Germany	ESG ratings ESG research	10 FTE	The parent company, RAEX Group, is headquartered in Russia.
EcoVadis, France	ESG ratings	600 FTE	Universal sustainability ratings provider, with over 65,000 rated companies, with a focus on sustainable supply chain management, but with applications for sustainable investment.
SD-M, Germany	ESG ratings ESG indices Raw data Analysis Benchmarking reports	5 FTE	SD-M have developed a proprietary ESG Standard which covers the Key Performance Indicators of companies in 68 industries. The SD-KPInform® database evaluates the performance of more than 12,000 companies worldwide and the SD-KPIndex® family for equity and corporate bond indices are licensed by asset owners, asset managers, banks and data providers.
Imug, Germany	ESG ratings Analysis Benchmarking reports	13 FTE	imug rating is one of the leading sustainability rating providers in Germany and specialist provider of customised ESG research.

Provider name and headquarters	Related Products and Services ⁹²	Estimated Size ⁹³	Description and further details
GRESB, Netherlands	ESG ratings ESG data	50 FTE	Global ESG benchmark for real assets. Investors use GRESB data and analytical tools to monitor ESG opportunities, risks and impacts, and engage with investment managers. The 2020 real estate benchmark covers more than 1,200 property companies, real estate investment trusts (REITs), funds, and developers. Coverage for infrastructure includes more than 540 infrastructure funds and assets. Combined, GRESB represents USD 5.3 trillion in real asset value.
Beyond Ratings, France (now part of London Stock Exchange Group (LSEG))	ESG ratings ESG indices Raw data Analysis	15 FTE	Beyond Ratings offers new financial analysis standards that systematically and transparently incorporate Environmental, Social and Governance (ESG) criteria. Beyond Ratings Analytics standard and bespoke services provide investors and risk managers Augmented Credit Risk analysis and ESG Research.
Profundo, Netherlands	ESG Research	15 FTE	Profundo is an independent not-for-profit company, which works for NGOs, financial institutions, governments and other clients.

The methodologies adopted by these providers are essentially the same as the larger providers outlined in the preceding section. Data and information on company sustainability-related management and performance is predominately obtained through independent collection of data from public sources (both self-reported from companies or from other organisations including the media, NGOs, regulators and other sources). In addition, some providers obtain information via in-person meetings or calls with companies or industry representatives, and some obtain secondary data from other research provider databases.

Governance processes and codes of conduct are reported to be in place for the larger providers (typically those with over 10 FTEs) as evidenced through the responses in the Transparency Reports for PRI signatories. These include reference to supervision bodies and committees to assure independence and avoid conflicts of interest; employment contract with specific articles on confidentiality, conflict of interest and compliance with the requirements for regulated activity; Codes of Conduct and related company policies that are communicated to and, in some cases, signed by all employees.

As an example, one sustainability-related rating provider reported that in order to prevent situations of conflict of interest, they had a rule in place that an analyst, researcher or other employee may not participate in the determination of ratings or other output of assessments and evaluations if the employee owns securities or derivatives of the assessed entity or any related entity, has had an employment or other significant business relationship with the assessed entity within the previous 6 months, or has an immediate relation (i.e. spouse, partner, parent, child and sibling) who currently works or has worked within the previous 6 months for the assessed entity.

The smaller providers (with less than 10 FTEs) typically report that they do not have a policy for managing potential conflicts of interest.

Overall, it is noted that there is significantly less transparency with respect to the methodologies adopted and the approach to governance, including management of potential conflicts of interest, amongst the selected providers headquartered in the EU listed in Table 17, than there is by the larger providers featured in the proceeding section.

2.4. Product Types

This section identifies nine main sustainability-related product and service types. It is important to note that several of the largest service providers, and many of those analysed in the previous section on business models, offer multiple products and services. The table below outlines a brief definition for each type of product or service and indicates which of the largest providers offer that product or service. For clarity, we do not use the term 'ESG research' in our product titles below because there is not a commonly accepted definition for this. Each provider may use ESG research in reference to a number of different products listed in the table, or to their team, or broader business units (see the explanation we've added in the "terminology" section at the beginning of Part 2 for further detail). We do use the term 'Sell-side research' because it is an accepted market product title, and has relatively standard product characteristics across providers.

All of the providers included in the table, except for CDP, offer at least four product types or more. The majority of providers that offer data products also offer a rating product as well. Several also offer an index products based off of the analysis from the rating product the ratings offered. While Sustainalytics does not offer a branded index product, its rating does inform several separately branded indices.⁹⁴ Rankings and sell-side research are two of the products not commonly offered by the larger providers; rankings are a less common product on the market and sell-side research is typically provided by banks.

Table 18: Product Definitions and Provider Examples

Type of Product or Service	Definition	Bloomberg	CDP	FTSE Russell	ISS	MSCI	Refinitiv	RepRisk	S&P	Sustainalytics	Vigeo EIRIS
Data	Quantitative or qualitative pieces of information on the environmental, social, economic and/or corporate governance exposures and practices of companies	x	x	x	x	x	x	x	x	x	x
Ratings	Evaluations of a company, country, financial product or fund, based on a comparative assessment of their approach, disclosure, strategy or performance on ESG issues	x	x	x	x	x	x	x	x	x	x
Rankings	Lists that classify companies or	x	x			x	x		x		

⁹⁴ 'ESG Indices Passive Funds', Sustainalytics, <https://www.sustainalytics.com/esg-indices/>.

Type of Product or Service	Definition	Bloomberg	CDP	FTSE Russell	ISS	MSCI	Refinitiv	RepRisk	S&P	Sustainalytics	Vigeo EIRIS
	financial products based on performance across ESG issues and put them in a certain order, grouping or prioritization based on a specified grading system										
Screening Tools & Services	Tools/services that evaluate companies, countries and bonds based on their exposure or involvement-specific controversial sectors, products or services (e.g. in arms production or fossil fuels)				x	x				x	
News Sentiment and Controversy Alerts or Scores	Company or country conduct assessments that highlight behaviours and practices that may lead to reputational and/or business risks and opportunities, and/or non-compatibility with investor policies	x			x	x	x		x	x	x
Benchmarks / Indices	A set of securities designed to represent some aspect of the total market by including some ESG criteria into security selection.	x		x	x	x	x		x		x
Advisory Services	Investor services may include: proxy voting guidelines and advisory, guidance on how to integrate ESG into the investment approach or guidance on how to report on fund or portfolio ESG performance. Services offered to companies include additional insight into how ratings function, benchmarking support through ratings and support with reporting that influences ratings		x		x	x	x		x		x
Impact Solutions	Products that evaluate the negative or positive impacts of an investor's portfolio or investments, or directly evaluate company product impacts.			x	x	x			x	x	x
Sell-Side Research	Contextualized, data-informed analytical opinion designed to support investment decision making, typically including an investment recommendation (buy, sell or hold).										

Note: Sustainalytics is a Morningstar company; Vigeo Eiris is an affiliate of Moody's; and S&P includes the S&P SAM rating product and Trucost advisory services.

2.4.1. Data

Definition

Data products consist of a single access point for a variety of quantitative or qualitative pieces of information on the environmental, social, economic and/or corporate governance exposures and practices of companies. These data are typically gathered from company disclosures and collected in a database to make it easier for users to search for and access the information. These data may be presented to users 'raw' – as it was presented and collected from company disclosures; it may be 'aggregated' – where it is combined or collated from across numerous sources and expressed or presented in summary form; and it may be 'cleaned' – where it is processed in order to detect and correct (or remove) inaccurate records and where missing data is estimated. Such data may relate directly to individual companies, but may also relate to individual assets, to countries or cities, to regulations or to many other aspects of industrial activity.

Objective Pursued

The main objective of data products is to make a large volume of data and information available to be further analysed by the user. These data are often used directly in the production of ESG ratings or sustainable investment research. Data products provide a benefit to the user by putting all relevant information in one place, saving the user from having to extract relevant data points from company disclosures. Some data providers, such as Bloomberg, offer additional benefits by enabling the user to access ESG and financial data on a given company at the same time, allow data downloads into a spreadsheet for easier analysis and even offer data modelling or comparison tools within the product interface.

Product and Provider Examples

Product and provider examples include Bloomberg Terminal ESG Data; CDP Climate, Water or Forests data; MSCI ESG Ratings (which include E, S, and G data feeds as part of the product); ISS ESG Raw Data; Sustainalytics ESG Data; and Refinitiv E, S and G Data.

How Sustainability and ESG Factors Are Measured/Defined

Data products do not themselves evaluate risk, impact or performance; that analysis is dependent upon how the user applies the data. Data without analytical context only takes on an objective in the hands of the user rather than the supplier.

Forward or Backward Looking

Most data is historical, based on previous years' disclosure from companies. However, an increasing number of data points are focusing on forward-looking metrics, such as company emissions reduction targets and alignment to global objectives such as the Paris Agreement, or the Science-Based Targets Initiative.

Fee Structure

The fee structure is usually a subscription, which may also include access to data, ratings and other research.

Regulation

The provision of raw and aggregated data is currently not regulated in the EU.

2.4.2. Ratings

Definition

Ratings are evaluations of a company, country, financial product or fund, based on a comparative assessment of their approach, disclosure, strategy or performance on ESG issues. This comparative assessment may be based on stated criteria of the rating or against other companies. Some ratings cover E, S and G criteria collectively, while others may seek to focus on evaluating a specific E, S or G issue. According to ESMA⁹⁵, ESG ratings can be grouped into broad categories based on what they are measuring. The most common form is ESG risk ratings, which measure a company's exposure to ESG risks and management practices. There are also ESG impact ratings, which measure the impact of an entity on ESG factors. Beyond those two groups there are a number of other ratings that measure aspects like disclosure, or a specific issue. The most prevalent issue-focused ratings are climate-related ratings, looking at, for example, climate risk, GHG emissions or low-carbon products. Ratings products are often accompanied by and underlying research assessment conducted by the rating provider to get the eventual rating.

It should be noted that for the purposes of this report, there is not considered to be a difference between a 'score' and 'rating'. Different terms are used to describe the same output depending on the terminology preference of the provider or other market participant. In this report, the term 'rating' is favoured for consistency unless referencing the name of a specific product or quoting the description of a product that includes the phrase 'score'.

Objective Pursued

The objective of ESG ratings is to measure relative company performance against a set of sustainability criteria (defined by the ESG rating provider). **ESG ratings are often used for pre-investment decision-making (e.g. to inform a selection of equities to include in a portfolio or fund), post-investment analytics and attribution (e.g. to rate the 'sustainability' of an investment product or fund) or as a basis for investment screening or for company engagement (engagement between an investor who is a shareholder of a company, and the company itself).**

It is important to note the difference in objectives from commercial ratings providers, such as Bloomberg, FTSE Russell, ISS, MSCI, Sustainalytics, and the one main non-commercial ratings provider, CDP. CDP is the only main rating provider that is a non-profit organisation where the main objective is to 'focus investors, companies and cities on taking action to build a truly sustainable economy by measuring and understanding their environmental impact',⁹⁶ which is distinct from commercial providers whose primary objective is to sell products. ESG ratings are different from credit ratings where the credit risk of a company is assessed.

⁹⁵ Response to public consultation, EC consultation on a Renewed Sustainable Finance Strategy, ESMA, July 15, 2020, https://www.esma.europa.eu/sites/default/files/library/esma30-22-821_response_to_ec_consultation_on_a_renewed_sustainable_finance_strategy.pdf.

⁹⁶ 'About Us', Info, CDP, <https://www.cdp.net/en/info/about-us>.

Product and Provider Examples

Company Performance, Management or Disclosure Ratings

Company performance, management or disclosure ratings examples include Bloomberg ESG Disclosure Score (note, Bloomberg also launched the 'ESG Scores' product in August, 2020⁹⁷); CDP Climate, Water or Forests scores; FTSE Russell ESG Ratings; ISS ESG Corporate Rating, ISS Quality Scores, ISS ESG Country Rating, ISS Carbon Risk Rating, ISS SDG Impact Rating; MSCI ESG Ratings; Refinitiv ESG Scores; RepRisk Rating; SAM CSA Assessment; Sustainalytics ESG Risk Rating; and Vigeo Eiris Sustainability Rating.

Financial Product Ratings

Financial product ratings examples include Morningstar Sustainability Rating (Based on Sustainalytics company level ratings), MSCI ESG Fund Ratings (based on MSCI ESG Research company level ratings); and ISS ESG Fund Rating.

How Sustainability and ESG Factors Are Measured/Defined

Typically a rating provider will establish a methodology to inform the rating by identifying a set of relevant ESG issues, assigning indicators to evaluate performance on those issues and then developing a weighting and scoring process to evaluate a company or financial product across all issues. See Part IV. Rating Methodologies, for further information. Most establish systems whereby a certain level of performance on an issue is assigned a certain number of points or a grade. Points or grade assignments may be attached to a quantitative metric (e.g. number of female directors, emissions reduced) or qualitative assessments (e.g. a 'high', 'medium', or 'low' assessment based on policies, procedures or performance). Topics are also often assigned a given weight establishing different levels of influence for different topics or sets of topics on the final rating.

Forward or Backward Looking

Almost all ESG ratings are based on historical company data, company future plans where possible and alternative data sources (e.g. media sources). Ratings agencies are trying to synthesize that data to provide investors with information to inform future decisions. For instance, S&P Global Ratings ESG Evaluation aims to provide a "forward looking, long term opinion of readiness for disruptive ESG risks and opportunities."⁹⁸

ESG ratings providers, such as Vigeo Eiris and S&P, are also developing measures of 'climate risk' that attempt to assess forward-looking risk informed by the Paris Agreement and initiatives, such as the TCFD and Climate Action 100+. Providers are increasingly innovative in the low-carbon transition space – for example, FTSE Russell has launched a 'Green revenues data model',⁹⁹ which analyses the revenues a company earns from green products and measures 'the level of exposure' to the 'EU taxonomy for sustainable activities'.

⁹⁷ 'Bloomberg Launches Proprietary ESG Scores', Press Announcement, Bloomberg, <https://www.bloomberg.com/company/press/bloomberg-launches-proprietary-esg-scores/>.

⁹⁸ 'ESG Evaluation,' Ratings Products, S&P Global, <https://www.spglobal.com/ratings/en/products-benefits/products/esg-evaluation>.

⁹⁹ 'Green Revenues 2.0 Data Model', Green Revenues Data Model, Sustainability and ESG Data, <https://www.ftserussell.com/data/sustainability-and-esg-data/green-revenues-data-model>.

Many ESG ratings providers claim that their ratings are ‘forward-looking’ as historical data and policies are a guide to future performance. There is evidence to support these assertions, for example, ‘The Impact of Corporate Sustainability on Organizational Processes and Performance’¹⁰⁰ from 2012, by Eccles, Ioannou and Serafeim, and a meta-study of more than 2 000 reports in 2015.¹⁰¹ There is also evidence from academic studies to suggest that the predictive ability of ESG metrics is reliant on a smaller number of ‘material’ metrics rather than a generic rating. For example, a recent report on European public companies showed that while there was a weak positive relationship between a broad ESG metric and financial metrics, this relationship could be strengthened by focusing on specific metrics – environmental innovation, employment productivity and diversity and equal opportunity policies.¹⁰²

Fee Structure

The fee structure is most often through subscription, however, some ESG ratings providers also sell individual company ratings on a license unit fee basis.

Regulation

The provision of ESG ratings is not currently regulated in the EU, though some of the providers are regulated entities for their other business streams.

2.4.3. Rankings

Definition

Rankings are lists that classify companies or financial products based on performance across ESG issues and put them in a certain order, grouping or prioritization based on a specified grading system. Often rankings will simply be another output from a ratings product where the ranking grading system is essentially the rating methodology. The evaluation of what constitutes a high or low level of performance across any given issue will be determined by the rating methodology of the provider. Rankings may compare company performance to other peer companies within a sector or on a given ESG topic, such as climate action, waste, palm oil use, deforestation, employee well-being, human rights management, etc.

Product and Provider Examples

Product and provider examples include CDP A list (companies that achieved an ‘A’ rating on CDP’s Climate, Water and Forests rating); Fortune 100; Just 100; and Diversity Inc list.

¹⁰⁰ Robert G. Eccles, et al., ‘The Impact of Corporate Sustainability on Organizational Processes and Performance’, *Management Science* 60, 11 (February 2014): 2835-285, https://www.hbs.edu/faculty/Publication%20Files/SSRN-id1964011_6791edac-7daa-4603-a220-4a0c6c7a3f7a.pdf.

¹⁰¹ Gunnar Frieded, et al., ‘ESG and Financial Performance: Aggregated Evidence from More than 2000 Empirical Studies’, *Journal of Sustainable Finance & Investment* 5, 4 (December 2015): 210-233, <https://www.tandfonline.com/doi/full/10.1080/20430795.2015.1118917>.

¹⁰² Caterina De Lucia, et al., ‘Does Good ESG Lead to Better Financial Performances by Firms? Machine Learning and Logistic Regression Models of Public Enterprises in Europe’, *Sustainability* 12, 5317 (July 2020), <https://www.mdpi.com/2071-1050/12/13/5317/pdf>.

Objective Pursued

The objective of rankings is to group or order companies by performance against a set of sustainability criteria. These rankings can be used by investors to inform investment analysis and strategies. For example, an investor or asset manager may choose to screen companies within a given sector and only include the 'A list' in the investible universe as a way to screen for good ESG performance. Often rankings are just one other input into an active manager's ESG research.

How Sustainability and ESG Factors Are Measured/Defined

The diversity of sustainability-related or ESG rankings leads to diverse definitions of ESG and what it means to be sustainable. Rankings will have cut offs for different levels of groupings that come from underlying ratings methodology (e.g. CDP's A-List), but the underlying determination of that cut off is defined by the individual organization. An additional complication is often the aggregation of a number of KPIs or data points to reach a singular ranking means that each organization may weigh different ESG factors differently.

Forward or Backward Looking

Much like ESG ratings, almost all ESG rankings are backward looking, in that they are based on historical company ESG data.

Fee Structure

Often rankings are made publicly available for free, whereas the underlying ratings may require a subscription.

Regulation

Rankings are not currently regulated in the EU.

2.4.4. Screening Tools and Services

Definition

Screening tools and services evaluate companies, countries and bonds based on their exposure or involvement-specific controversial sectors, products or services (such as involvement in arms production or fossil fuels). A screening service may utilize an ESG rating to support the screen. For example, a positive screen may only include companies that have met a minimum ESG rating threshold. Screening services began decades ago with ethical screening, primarily for church and charity investors, to ensure that they were not invested in what they considered to be 'inappropriate' activities like tobacco, pornography or firearms. Today, screening tools consider a variety of climate-related ESG factors, such as exposure to oil sands, shale gas, thermal coal or palm oil activities. Many providers offer off-the-shelf screening or weighting services along with bespoke services to design a screen or weighting to meet a customer's needs.

Product and Provider Examples

Product and provider examples include ISS Global Sanctions Screening, ISS Sector-Based Screening, MSCI Energy & Extractives Screening, MSCI Global Sanctions Screening and MSCI Sector-Based Screening.

Objective Pursued

For screening services, the objective could range across measuring risk, impact, performance or compliance depending on the desire of the customer, who is often an investor or asset manager. Screens and weightings can be used to measure compliance with ethical, social, environmental or governance standards – whether those be regulatory standards or socially expected ‘norms’ (e.g. the sale of tobacco, pornography or firearms or more recently engagement in shale gas or thermal coal).

How Sustainability and ESG Factors Are Measured/Defined

Screening services do not attempt to define sustainability per se, but identify companies that meet (positive screen) or do not meet (negative screen) accepted criteria. For example, a screening product that identifies a universe of tobacco companies will evaluate company disclosures to determine which companies qualify as tobacco providers. They may also set a threshold indicating that companies with a certain percentage of revenue coming from tobacco products, even if it is not the main business, also qualify as tobacco companies. This becomes more relevant when considering large conglomerates with many businesses. The screening product provider will do the work to evaluate company disclosures to determine which companies meet the threshold and then sell that analysis to a user in the form of a screening tool or product. These screening criteria vary widely according to the investor or asset manager’s requirements, from ethical considerations, such as gambling, pornography and weapons, through to climate-related criteria, such as fossil fuels or percentage of revenues from coal.

Forward or Backward Looking

Screening tools and services rely on company data that is historical, based on previous years’ disclosure from companies, to inform screens. Thus, they are inherently backward looking

Fee Structure

The fee structure varies, but can be a subscription or based on a bespoke project.

Regulation

Where providers create a benchmark index of screened companies (e.g. FTSE4Good), this is regulated (see Benchmarks and Indices), but raw data and screening services are not currently regulated.

2.4.5. News Sentiment and Controversy Alerts

Definition

News sentiment and controversy alerts are company or country conduct assessments that highlight behaviours and practices that may lead to reputational and/or business risks and opportunities, and/or non-compatibility with investor policies. Controversy monitoring and alerts may be included as part of an ESG rating report or may be sold separately.

Product and Provider Examples

Product and provider examples include RepRisk, Bloomberg Environmental & Social News Sentiment Scores¹⁰³, MSCI ESG Controversies¹⁰⁴, Sustainalytics Controversies Research and Reports¹⁰⁵, ISS Country Controversy Assessment, and Vigeo Eiris Controversy Risk Assessment (CRA).

Objective Pursued

The objective of controversy alerts is to assess a level of risk associated with a company or country's involvement in an activity. These alerts enable investors or asset managers to refine their investment decisions to reduce reputation risk to the investor and/or to screen out companies that are noncompliant with standards. These products are typically used by investors or asset managers for corporate governance, exclusion and engagement activities.

How Sustainability and ESG Factors Are Measured/Defined

Providers have different methodologies for evaluating controversies. Often controversies will be evaluated by monitoring news updates and lawsuits. See Part IV: Methodologies for further information on how ESG factors are defined. For example, Sustainalytics methodology states: *'Based on our news monitoring, incidents – such as lawsuits and spills – are identified and relevant information and references are collected. Individual incidents accumulate and escalate into events. Events are classified into 10 topical areas and scored on a hurricane scale from one to five, depending on the reputational risk to the company and potential impact on stakeholders and the environment.'*¹⁰⁶ Whereas MSCI's methodology states¹⁰⁷ that *'the evaluation framework is designed to be consistent with international norms represented in numerous widely accepted global conventions.'* Where global conventions include: United Nations Global Compact Principles (UNGC), the International Labour Organization's (ILO) conventions, and the United Nations Guiding Principles on Business and Human Rights (UNGPHR). *'The MSCI ESG Controversies approach is stakeholder driven and covers the following five categories of stakeholder impact, organized against 28 indicators: Environment; Customers; Human Rights & Community; Labor Rights & Supply Chain; Governance.'*

Forward or Backward Looking

These metrics are backward looking, based on historical events, though some providers now offer forward-looking estimates of how a rating may evolve.

Fee Structure

Most often through subscription, however, some controversy alerts providers also sell individual company alerts or reports on a license unit fee basis.

¹⁰³ 'Environmental & Social News Sentiment Score', Bloomberg, <https://data.bloomberglp.com/professional/sites/10/ES-News-Sentiment-Fact-Sheet.pdf>.

¹⁰⁴ 'MSCI ESG Controversies', MSCI, <https://www.msci.com/documents/10199/acbe7c8a-a4e4-49de-9cf8-5e957245b86b>.

¹⁰⁵ 'Controversies Research', Sustainalytics, <https://www.sustainalytics.com/controversies-research/#1482352884479-c3043796-060d>.

¹⁰⁶ Ibid.

¹⁰⁷ MSCI, *MSCI ESG Research Controversies and Global Norms*, July 2020, <https://www.msci.com/documents/1296102/14524248/MSCI+ESG+Research+Controversies+Executive+Summary+Methodology+-++July+2020.pdf/b0a2bb88-2360-1728-b70e-2f0a889b6bd4>.

Regulation

Controversy alerts are not currently regulated in the EU.

2.4.6. Benchmarks and Indices

Definition

A benchmark or index is a set of securities designed to represent some aspect of the total market. ESG indexes differ from traditional broad market indexes by including ESG criteria into security selection. All indexes are developed with rules to ensure security selection is objective and consistent.

Product and Provider Examples

There are a huge variety of indices available on the market, this is just a small sampling – Bloomberg Gender Equality Index; FTSE ESG Index Series; Solactive ISS ESG EU Climate Benchmark Index Series, Solactive ISS Low Carbon Index Series, Solactive ISS ESG Screened Index Series; MSCI ESG Leaders Index, MSCI ESG Focus Index, MSCI Climate Change Index; Refinitiv / S-Network ESG Best Practices Indices etc. ESG indexes cover most global stock exchanges. Within the EU, investable ESG indexes are mostly pan-European, such as the STOXX Europe ESG Leaders 50 Indices¹⁰⁸ or the Dow Jones Sustainability Europe Index.

Objective Pursued

The objective of an index is to provide a transparent and rules-based way to build an investment strategy with ESG characteristics. Specific objectives may include: avoiding certain kinds of companies, gaining exposure to high ESG ratings, an ESG theme, or generating positive social or environmental impact.

How Sustainability and ESG Factors Are Measured/Defined

ESG benchmarks/indices are often based on an underlying rating assessment that informs a set of criteria for inclusion or exclusion from the index. For example, if a company achieves a certain rating level (for example, AAA or 90), then that company will be included in the benchmark. Benchmarks and indices may also be structured around “best in class” where the top performing companies across a sector in a particular topic are included or “exclusion” where companies performing below a certain threshold are not included. Further detail on approach is explored in Part IV: Methodologies.

Forward or Backward Looking

Benchmarks can be backwards looking when evaluation factors are based on past performance, which is often the case, or forward looking if the evaluation factors are based on expected future performance in a given scenario.

Fee Structure

Administrators charge a subscription fee for access to an index and a licensing fee to issuers of financial products such as tracking funds which are based on their indexes.

¹⁰⁸ ‘STOXX Europe ESG Leaders 50’, Indices, Home, <https://www.stoxx.com/index-details?symbol=SXXESGP>.

Regulation

Benchmark Administrators in the EU are regulated under the EU Benchmark Regulation. Additionally, under Regulation (EU) 2019/2089, the Low Carbon Benchmarks Regulation, requires benchmark administrators to indicate within their benchmark statement (bar interest rate or foreign exchange-related benchmarks) whether the benchmark pursues ESG objectives and whether the administrator's wider offering includes ESG-focused benchmarks. The Regulation also introduces two categories of low-carbon benchmarks - EU Climate Transition Benchmarks and EU Paris-Aligned Benchmarks. Benchmark administrations are required to be significantly more transparent in their approach and methodology in the composition of a low-carbon benchmark. The EU has the opportunity to create secondary legislation outlining minimum standards for the benchmarks and potentially exclude certain sectors. By 2022, large benchmark administrators in the EU will be required to provide one or more EU Climate Transition Benchmarks.¹⁰⁹

2.4.7. Advisory Services

Definition

Advisory services may cover support offered to investors or companies. Services offered to investors may include: proxy voting guidelines and advisory (ISS Proxy Voting Services¹¹⁰ and Hermes); guidance on how to integrate ESG into the investment approach (ISS' Responsible Investing Policy Development and Climate Strategy Development services); or guidance on how to report on fund or portfolio ESG performance (MSCI's ESG Reporting Service¹¹¹).

Services offered to companies include additional insight into how ratings function, benchmarking support through ratings and support with reporting that influences ratings. These services are more limited and typically there are procedures in place at a provider level (see Conflicts of Interest and Codes of Conduct) to separate teams responsible for companies advisory and teams responsible for analysing and rating the issuing company.

Product and Provider Examples

Services for Investors: Proxy voting guidance from Hermes EOS and ISS; ESG integration services from ISS Responsible Investing Policy Development, ISS Climate Strategy Development services; MSCI ESG Reporting Service.

Services for companies

CDP Reporter Services¹¹² and Vigeo Eiris rating reports and tailor-made services.¹¹³

¹⁰⁹ Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32019R2089>

¹¹⁰ 'Proxy Voting Services', Solutions, ISS, <https://www.issgovernance.com/solutions/proxy-voting-services/>.

¹¹¹ 'ESG Reporting Service', ESG, MSCI, <https://www.msci.com/esg/reporting-services>.

¹¹² 'Reporter Services', Companies, CDP, <https://www.cdp.net/en/companies/reporter-services>.

¹¹³ 'Services for Rated Companies', ESG Rating Services, Solutions for Companies & Organizations, <http://vigeo-eiris.com/solutions-for-companies-organisations/services-for-rated-companies/>.

Objective Pursued

The purpose of these advisory services is to evaluate risk or impact and support client activities to address that risk or impact. For investors the objective of the service is to support investment decision making and engagement with portfolio companies through proxy voting. For companies, the objective is to support better disclosure and reporting.

How Sustainability and ESG Factors Are Measured/Defined

How sustainability and ESG factors are defined and measured depends on the service offered. For services that support investors with integrating ESG into investment decision making, the factors may be defined in the same way as a rating or could be tailored to the investment approach of the client. For services that support companies, the factors are typically defined in the same way that the ratings defines them.

Forward or Backward Looking

Advisory services review backwards looking information to inform future actions.

Fee Structure

Typically either subscription (a day rate basis) or bespoke pricing (a fixed fee for a defined scope of work).

Regulation

Proxy services are regulated by EU Shareholder Rights Directive II, and advisory services to companies are not currently regulated.

2.4.8. Impact Solutions

Definition

Impact solutions are products that may evaluate the negative or positive impacts of an investor's portfolio or investments, or directly evaluating company product impacts. These impacts are often measured using a specific framework (e.g. Sustainable Development Goals) or theme ("green" revenues that focus on environmental impacts).

Product and Provider Examples

MSCI Impact Solutions, FTSE Russell Green Revenues, ISS Solutions Assessment (SDGs).

Objective Pursued

The purpose of these solutions is to assess the negative or positive impact of an investor or company's product or service portfolio against a specific framework. Investors who are using impact investing models may use these products to help develop and analyse their portfolios.

How Sustainability and ESG Factors Are Measured/Defined

Sustainability and ESG factors are defined by the theme of the service offered – be it climate change, SDGs or something else. For instance, FTSE Russell's Green Revenue

model provides a taxonomy, data, and measurement methodologies for investors to determine how “green” their portfolio is.¹¹⁴ This will align with the new EU Taxonomy regulations. In another instance, MSCI and ISS have solutions oriented towards measuring alignment and impact with the SDGs.¹¹⁵¹¹⁶

Forward or Backward Looking

Impact solutions use company-disclosed data, and estimations where relevant to apply a current analysis of impacts. They do not predict future negative or positive impacts.

Fee Structure

Includes subscription or bespoke pricing.

Regulation

The relevant EU Taxonomy rules apply as of December 2021 and will define what economic activities qualify as sustainable. Although the impact solutions products will not be regulated, the product may be further refined, or new ones may arise to help investors map their funds to the EU requirements.

2.4.9. Sell-Side Research

Definition

Sell-side research is contextualized, data-informed analytical opinion designed to support investment decision making, typically including an investment recommendation (buy, sell or hold). Sell-side research is created by analysts who work for investment banks or brokers to help inform their clients’ investment decision making.

Product and Provider Examples

Most major investment banks offer sell-side research including: Citi, Credit Suisse, Barclays, Goldman Sachs, HSBC, Bank of America, Morgan Stanley and BNP Paribas.

Objective Pursued

The research is used to fundamentally assess the future value of an equity investment. It looks at ESG issues to inform risks and potential impact on financial performance to inform investment decision-making.

How Sustainability and ESG Factors Are Measured/Defined

According to a 2016 PRI report¹¹⁷, sell-side research has been integrating ESG factors through economic analysis (e.g. how ESG factors impact economic growth rates), how ESG factors impact company valuations, company exposures to ESG related themes

¹¹⁴ ‘Green Revenues Data Model’, Sustainability and ESG Data, ESG, <https://www.ftserussell.com/data/sustainability-and-esg-data/green-revenues-data-model>.

¹¹⁵ ‘Impact Solutions’, ESG Investing, Our Solutions, <https://www.msci.com/our-solutions/esg-investing/impact-solutions>.

¹¹⁶ ‘Sustainability Solutions Assessment’, Impact & UN SDGs, ISS ESG, <https://www.issgovernance.com/esg/impact-un-sdg/sustainability-solutions-assessment/>.

¹¹⁷ Principles for Responsible Investment, *A Practical Guide to ESG Integration for Equity Investing*, PRI, 2016 <https://www.unpri.org/download?ac=10>.

(such as climate change or energy efficiency) and benchmarking. This research may take the form of sector reports or topic or company specific analysis.

Forward or Backward Looking

Sell-side research uses fundamental financial analysis of past company performance and data to inform the creation of forward-looking modelling to estimate the potential future performance of the company and stock. This informs further analysis, often a Discounted Cash Flow, DCF, analysis to estimate the value of an investment based on projections of how much money it will make in the future. This then ultimately informs a recommendation on if the stock should be bought, held or sold.

Fee Structure

Typically annual licensing fees for access to research.

Regulation

MiFID Delegated Directive 2017/593 and 2003/6/EC.

2.5. Fee Structures

The primary fee structures that apply across sustainability-related products and services include: subscription, licensing and bespoke service fees. The typical purchaser of these products and services are investors, asset managers, investment banks and, to a lesser extent, companies and intermediaries or consultants.

Subscription: Where users pay for use of a product or service at a fixed rate for a given period of use of the product, such as an annual fee. Subscription is the dominant fee structure used across sustainability-related products and services. ESG rating providers and data providers in particular often utilize a subscription-based approach whereby the subscription charge grants access to a specific product, service or suite of products and services. Examples of this include the Bloomberg Terminal, where users pay an annual flat fee to access the terminal and all of the data. S&P is looking to integrate its ESG data into its existing subscription-based market intelligence platform where users can access both ESG and broader financial data.

Licensing: Where data access is licensed by users to create commercial products or for use with in-house analysis. Data providers typically sell licenses for access to services - which is much the same as subscription - although such licences are typically provided on a per user basis and require a larger upfront cost and lower annual maintenance costs. Licensing may also be applied to the use of an index in creation of an investment product or fund, in which case the license fee may be charged as a percentage of the assets managed according to that index.

Bespoke Service Fees: Where product or service access is offered at a bespoke price set by the provider. Fees for advisory services for investors (e.g. proxy voting or ESG integration into investment approaches) and companies (e.g. CDP's Reporter Services) are not made public. Providers may also charge bespoke fees for targeted research or analysis. This is typically on a unit price (fixed fee for defined scope of service or product) or on a day rate (time and materials) basis.

2.6. Conflicts of Interest

The survey and interviews conducted for this study, along with desk research, indicate several components of company structure and governance that may introduce potential conflicts of interest.

Ownership: A conflict of interest may arise if the parent company of a sustainability-related product and service providers can exert undue pressure or influence on the research and recommendations that a research or ratings provider offers. For example, if a ratings provider is owned by a private equity firm that owns a portfolio of other companies rated by the ratings provider, the private equity firm may have an interest in its other portfolio companies being rated positively. Any companies with this type of ownership structure need to establish adequate checks and balances or policies to ensure the parent private equity firm cannot influence ratings of its other portfolio companies.

Example: ISS¹¹⁸

ISS is owned by private equity firm Genstar Capital; ISS has adopted a Policy on Potential Conflicts of Interest Related to Genstar capital which identifies and addresses potential conflicts of interest that may arise in connection to the work ISS does in research, analysing and providing recommendations on public companies in relation to the work of Genstar as a private equity firm.¹¹⁹

Product and Service Mix: A conflict of interest may arise if a sustainability-related research or rating provider provides ratings on a company and at the same time provides paid services to that company to support improved ratings. A conflict may arise if the rating provider is essentially offering paid services to a company to improve its rating. This would infringe upon the independence of the rating research and evaluation. In addition, some ratings providers charge companies to see their own reports. In this instance, it is important for the rating provider to ensure that employees responsible for research and ratings are kept separate from any advisory services to companies that support ratings improvement.

Example: CDP

CDP conducts ratings on issuing companies and also offers CDP Reporter Services¹²⁰. These services may include disclosure support (review of draft responses ahead of submission, with guidance and advice on improving the quality of reporting, gap analysis and in-depth feedback to highlight improvement areas) and data and analytics (unlimited downloads of company responses from the CDP website, access to online data analytics tools, a benchmark report for the companies performance against 10 peers). While CDP does not publish a publicly available code of conduct governing this potential conflict of interest, the non-profit described in an interview conducted for this study, that it has internal policies in place and separates technical staff from

¹¹⁸ Note that in November 2020, Deutsche Börse AG acquired a majority stake in ISS from Genstar Capital

¹¹⁹ Institutional Shareholder Services Inc., *Policy on Potential Conflicts of Interest Related to Genstar Capital*, 16 October 2017, <https://www.issgovernance.com/file/duediligence/ISS-Conflicts-Policy-Regarding-Genstar.pdf>.

¹²⁰ 'Reporter Services', Companies, CDP, <https://www.cdp.net/en/companies/reporter-services>.

teams doing ratings. It also notes that ratings work is primarily outsourced, introducing further separation.¹²¹ Staff handbooks establish requirements and any employee attempting to influence the rating teams would have their employment terminated.

Example: ISS

The issuer services, known as ISS Corporate Solutions (ICS), support companies in designing and managing their ESG programs. To prevent conflicts of interest there is a strict firewall between ISS and ICS as outlined in the annual Due Diligence filing.¹²² ICS and ISS are separate legal entities, the day-to-day operations are separately managed, the teams work separately and cannot discuss a range of matters, no form of compensation for ISS employees is linked to ICS, and no guarantees are provided to companies.

Separation of Commercial and Analytical Teams: A conflict of interest may arise if product and service provision teams have the potential to be influenced by teams from the commercial part of the business. For example, a salesperson from the commercial side of the business may try to influence the product team to give a positive evaluation to one of his or her clients. Fees paid by that client may make up a large portion of that salesperson's commission, or the client may try to pressure the salesperson to help them get a better rating or be included in an index product.

To avoid this potential conflict of interest, it is important for providers to ensure appropriate separation between sales and analyst teams and to establish, and enforce, policies that protect analyst teams from any outside influence.

Example: Sustainalytics

Sustainalytics outlines policies that address this conflict of interest in its Code of Conduct¹²³. It separates Research Authors (employees conducting research for ESG ratings) from Institutional Relations (those whose primary responsibility is commercial and sales activities) and Advisory Services (those whose primary responsibility is managing client accounts). It notes that "Advisory Services team members and Institutional Relations team members must refrain from exerting any pressure, explicit or implicit, on Research Authors to change, not change, or justify any aspect of our research. For example, an Advisory Services team member arranging a meeting between a Research Author and a client to discuss a company's ESG Rating must not exert pressure to persuade the Research Author to a different view from the Research Author's previous judgement."¹²⁴

Methodology Governance: A conflict of interest may arise if a research or ratings methodology does not have the appropriate checks and balances in place to ensure the research process is appropriately applied and analysts are not open to undue influence. For example, a junior analyst may be financially influenced to alter a rating or evaluation of a given company. If there are no checks in place to review a change in rating, this alteration may go unnoticed. Rating and research providers can avoid this conflict of

¹²¹ Project team interviews and survey responses, 2020.

¹²² ISS, *Due Diligence Package: Proxy Research and Voting Services*, October 2019, <https://www.issgovernance.com/file/duediligence/due-diligence-package-oct-2019.pdf>.

¹²³ Sustainalytics, *Code of Conduct*, 2017, <https://www.sustainalytics.com/wp-content/uploads/2016/10/Code-of-Conduct-FINAL-uploaded-170731.pdf>.

¹²⁴ Ibid.

interest by establishing strong analyst training, research sign-off procedures and review teams/committees.

Example: MSCI

MSCI notes in its ratings brochure that ratings are subject to industry and market-led checks and formal committee review.¹²⁵ The committee structure is staffed by senior, experienced members of research staff and governed by a set of rules for escalation to committee decision making. This committee presides over the development, review and interpretation of ESG Research methodologies and other matters. There are explicit rules for requiring committee review of companies when certain thresholds are breached. Instances of a double-letter downgrade/upgrade or when companies receive the most severe assessments, must be brought for committee review. Committee deliberations are also limited to analyst staff and research leadership, they are typically not open to non-analyst staff to ensure research integrity.¹²⁶

Details on management of conflicts of interest are typically included in company codes of conduct or other public policies. Policies or codes that can address this issue include: transparency around relationships with shareholders and related entities; principles of conduct; conflicts of interest; independence of research, including separation of sales and research teams where appropriate; interactions with rated companies; and management of confidential data, including insider dealing and external communications.

2.7. Codes of Conduct

One way providers try to address conflicts of interest is to establish a company code of conduct that stipulates certain accepted and unaccepted company and employee practices along with processes to avoid conflicts of interest. These vary by provider.

Nine rating and data providers were analysed for this study to determine 1) if they had a code of conduct and 2) what elements were included. These providers analysed included: Bloomberg, CDP, FTSE Russell, ISS, MSCI, Refinitiv, RepRisk, S&P, Sustainalytics and Vigeo Eiris. These were selected for analysis based on their size, coverage (over 4,500 companies) and presence in the European market. While they are not all based in the EU, they have offices and a presence in EU member states as described in the introductory table in the Providers section in Part 2. This analysis was primarily informed by public UN PRI Transparency reports, which are required of any PRI signatory, and review of publicly available codes of conduct. The table below outlines the sections of each transparency report relating to code of conduct.

Eight of the providers analysed have a basic code of conduct (or code of ethics) in place or indicate that they follow the code of conduct of their respective holding companies. CDP, the only non-profit, is the only one that does not have a code of conduct in place. CDP Worldwide, the Group's holding company, is registered in England and Wales and is a charity registered with the Charity Commission for England and Wales and is directed by a board of trustees.

¹²⁵ MSCI, *MSCI ESG Ratings*, 2019, <https://www.msci.com/documents/1296102/15233886/MSCI-ESG-Ratings-Brochure-cbr-en.pdf/7fb1ae78-6825-63cd-5b84-f4a411171d34>.

¹²⁶ Project team interviews and survey responses, 2020.

Several themes emerge from this analysis as described below. These include general themes and those grouped by the key conflict of interest topics outlined in the previous section.

General

All providers analysed that have a code of conduct include some kind of language around requiring employees to comply by the codes, to review the codes on a regular basis and that there is training or certifications throughout the year on these codes. They also often outline requirements that any type of employee relationship (spouse, partner, parent, child) that may cause a conflict of interest be disclosed. These providers do not supply additional information or reporting on how often these codes are breached and the measures taken to address any breach.

Ownership

Aside from ISS, the providers analysed do not outline additional criteria addressing any ownership conflicts of interest.

Product Mix

ISS includes language in its code of conduct explaining how it separates its institutional investor solutions (ISS) and corporate solutions (ICS) into two separate businesses. It also provides additional information on this in an additional disclosure policy. The other providers analysed do not go into detail on any conflicts of interest within the product mix.

Separation of Commercial and Analytical Teams

Sustainalytics is the only provider that goes into further detail about how it separates teams. It states clearly in its Code of Conduct that the teams responsible for research for ESG ratings should be strictly separated from the employees responsible for commercial and sales activities. It emphasises that Sustainalytics is aware of the potential conflict of interest if an employee that does research or develops a rating also sells that rating and research to the same company he/she is rating.

Methodology Governance

Seven providers describe additional measures that apply to methodology governance. Six indicate that senior management has oversight and accountability for sustainability-related factors including MSCI, Sustainalytics, ISS, Vigeo Eiris, Bloomberg and RepRisk. Three also indicate the creation of a committee established to review the methodology policies including Sustainalytics, ISS and FTSE Russell. Sustainalytics states that it has created a policy review committee as an additional layer of governance. ISS states that the methodology is evaluated by the ISS ESG Methodology Review Board with input from cross-functional teams across the ISS ESG Business and clients. At FTSE Russell the Sustainable Investment data and index methodologies are developed and reviewed by the FTSE Russell ESG Advisory Committee and the FTSE Green Indices Committee and includes independent external input. While MSCI does not include mention of a committee in its code of conduct, the provider did describe in the interview conducted for this study that it has a committee that presides over the development, review and interpretation of ESG Research methodologies and other matters.

FTSE Russell also distinguishes itself from the other firms by being the only one that has a certified Statement of Compliance that follows the recommendations made by the International Organization of Securities Commissions (IOSCO) in the Principles for Financial Benchmarks Final Report.

Table 19: Codes of Conduct

Provider	Extracts from the UN PRI Transparency Report Related to Code of Conduct and Governmental Arrangement (if not stated otherwise)
Bloomberg	<p>The Bloomberg Employee Code of Conduct and Ethics, contained in the Human Resources Global Core Guide, sets out the standards we expect our employees to follow. It requires Bloomberg employees to conduct themselves and our business at the highest ethical standards, with integrity and within guidelines that prohibit actual or potential conflicts of interest or the perception of impropriety. The full text of the policy is provided on our intranet.</p> <p>The policy provides clear channels for raising concerns internally. Employees can reach out to managers and HR for advice and to report concerns. We have also partnered with a third party to establish an independent, secure, and confidential reporting channel for employees to use when they do not feel comfortable reporting directly to Bloomberg. The Bloomberg Ethics Hotline allows employees to submit concerns electronically by going to https://bloomberg.ethicspoint.com or by calling one of the toll-free numbers listed on that website. The hotline is accessible anytime to all employees and third parties.</p>
CDP	Does not have a public code of conduct nor a PRI Transparency Report
FTSE Russell	<p>In line with this philosophy, FTSE Russell publishes a Statement of Compliance with respect to the recommendations made by the International Organization of Securities Commissions (IOSCO) in the Principles for Financial Benchmarks Final Report (the IOSCO Principles). Independent assurance of the assertions by FTSE Russell in its Statement of Compliance has been received from KPMG LLP.</p> <p>FTSE Russell fully embraces the IOSCO Principles and endorses IOSCO's objective to address conflicts of interest in the benchmark-setting process, enhance the reliability of benchmark determinations, and promote transparency and openness.</p> <p>The current version of the Statement of Compliance is published on our website and can be viewed at http://www.ftse.com/products/indices/iosco. Principle 3 of the IOSCO Principles states "To protect the integrity and independence of Benchmark determinations, Administrators should document, implement and enforce policies and procedures for the identification, disclosure, management, mitigation or avoidance of conflicts of interest. Administrators should review and update their policies and procedures as appropriate." FTSE Russell's response to this principle can be found in its Statement of Compliance beginning on page 43.</p> <p>Further, on FTSE Russell's webpage it says that they have a governance board and FTSE Russell Governance Board. Further the process of obtaining client and market feedback is an extension of the approach to developing the Sustainable Investment data and index methodologies, which has always been developed based on independent expert input, provided by two separate Advisory Committees:</p> <p>The FTSE Russell ESG Advisory Committee, and</p> <p>The FTSE Green Indices Committee.</p>

Provider	Extracts from the UN PRI Transparency Report Related to Code of Conduct and Governmental Arrangement (if not stated otherwise)
ISS	<p><i>Note: ISS refers to companies that are evaluated as "Issuers"</i></p> <p>ISS has adopted a Policy Regarding Disclosure of Significant Relationships ("Disclosure Policy"). The purpose of this Disclosure Policy is to explain (a) ISS' framework for assessing whether a relationship with an issuer that is the subject of a proxy research report, or with a security holder proponent of a matter on ISS which is providing proxy research advice, is "significant"; and (b) the manner in which ISS will disclose any such significant relationships to the recipients of ISS' proxy research reports. As described in the Disclosure Policy, ISS is a service provider to both institutional investors and corporate issuers. The firm separates these activities into distinct business lines: ISS, which serves institutional investors and ISS Corporate Solutions, Inc. ("ICS"), a wholly owned subsidiary of ISS that is managed separately from ISS' institutional business, and distributes data, and analytical tools and other products, to corporate issuers.</p> <p>The Disclosure Policy also addresses ISS' approach to disclosure of potential conflicts presented by relationships with clients that are themselves publicly traded issuers (for example, a publicly-traded institutional investor), and with clients that are proponents of a shareholder proposal. Clients are able to review these "significant relationships" within ProxyExchange.</p> <p>In addition, all ISS employees are bound by and are required to adhere to ISS' Code of Ethics. All new employees (and on an annual basis thereafter), are required to review and acknowledge their understanding of and adherence to the Code of Ethics, which describes certain standards of conduct that the company's employees must follow. The Code of Ethics, among other things, affirms ISS' relationship of trust with its clients and obligates ISS to carry out its duties solely in the best interest of clients and free from all compromising influences and loyalties. The Code of Ethics devotes special attention to identifying, disclosing, and seeking to prevent potential conflicts of interest, including the potential conflicts between ISS' institutional proxy advisory services and the corporate services of ICS. The goal of the Code of Ethics is to prevent conflicts wherever possible, and to manage and disclose those conflicts as necessary.</p> <p>For most ISS ESG solutions, annual methodology evaluations are completed by the ISS ESG Methodology Review Board with input from cross-functional teams across the ISS ESG Business and clients. The mission of the Board is to provide the clearest possible research methodology to all stakeholders and consumers of ISS ESG products while ensuring leadership and alignment with global norms and market trends in the sustainable and responsible investing industry.</p>
MSCI	<p>MSCI employees are subject to compliance training and reporting requirements throughout the year, including annual training and certification of MSCI's code of conduct and related policies. Managing conflicts of interest is a core aspect of our compliance policies and procedures.</p> <p>Employees are required to promptly report any personal investment activity, interest or relationship (including those involving family members) that could give rise to a conflict of interest, or the appearance of a conflict of interest.</p> <p>Employees are also required to disclose and obtain pre-approval from the Legal and Compliance Department of any personal outside business activities, as well as activities related to seeking political office, holding elected or appointed political posts, serving on a public or municipal board or similar public body, or serving as an officer of a political campaign committee.</p> <p>Additionally, employees must disclose and obtain pre-approval from the applicable member of MSCI's Executive Committee and the Legal and Compliance Department to serve as a representative of MSCI on a board or committee or in another position constituting a leadership role in industry associations or groups.</p> <p>Further, employees are prohibited from trading in options on MSCI stock, purchasing MSCI stock on margin or holding MSCI stock in a margin account, holding MSCI stock in a managed account (where discretion is given to a broker), pledging MSCI stock as collateral for a loan, and from engaging in short sales, hedging transactions and stop or limit orders with a duration greater than one day</p> <p>In addition to the legal and compliance framework noted above, MSCI employees are subject to policies and procedures designed to prevent the use and dissemination, in violation of applicable laws, rules and regulations, of material non-public information. MSCI has a whistle-blower hotline 24/7 and conducts annual training on the Code of Conduct.</p>

Provider	Extracts from the UN PRI Transparency Report Related to Code of Conduct and Governmental Arrangement (if not stated otherwise)
Refinitiv	<p>Refinitiv (or Thomas Reuters) does not submit a UN PRI transparency report, but Refinitiv publishes its Code of Business Conduct and Ethics on its webpage.</p> <p>The Code of Business Conduct and Ethics covers the general topics that are part of a basic code of conduct such as fostering a respectful workplace, being compliant with laws and regulations, accurate financial records or protecting confidential information and data privacy. There is also a section on recognising and avoiding conflicts of interest that defines the different conflict of interests and provides guidance on how to deal with them if they arise.</p> <p>It is not elaborated whether there are any extra policies or governance structures in place that are related to ESG products or methodologies.</p>
RepRisk	<p>RepRisk developed its own Code of Ethics, which contains guidance on conflicts of interest, as well as some practical examples through questions and answers. Personal relationships must not result in any form of preferential treatment for clients, suppliers, colleagues and other stakeholders. All staff are expected to report any situation in which there might be a conflict between his/her personal and professional interests.</p> <p>RepRisk developed its own Code of Ethics, which contains guidance on intellectual property, confidential information, data protection, as well as some practical examples through questions and answers.</p> <p>Being an intelligence and technology company, intellectual property is of the utmost importance to RepRisk. All employees are expected to protect our own intellectual property and the tools developed by our employees, as well as the one of our clients, data providers, and others.</p> <p>At RepRisk, data protection is based on the "Need to protect" principle. Each employee is responsible for protecting the confidentiality of the information he/she has access to at RepRisk.</p> <p>Employees also sign a non-disclosure agreement in which they agree not to disclose confidential information.</p>
S&P	<p>To ensure we manage potential conflicts of interest we have policies in place. Our global Code of Business Ethics covers related issues. It is mandatory for all employees to participate in training and reaffirm their understanding annually. Please refer to our Code of Business Ethics at http://investor.spglobal.com/IRW/CustomPage/4023623/Index?keyGenPage=1073751550. We [...] implement rigorous policies to avoid potential conflicts of interest with mandatory training and adherence.</p>
Sustainalytics	<p>Sustainalytics' employees are prohibited from the following:</p> <ul style="list-style-type: none"> A. Tipping, which implies the provision of any material non-public information to another individual and/or company before such information has been generally disclosed to the public, other than during the necessary course of business, whether or not the other individual/company uses or is reasonably expected to use the information for trading purposes; B. Front-running, which refers to employees trading in the products or securities of a company with knowledge of a material non-public information. C. Trading, in the products or securities of a company until two business days after such material non-public information has been publicly disseminated. <p>Any Employee found to have engaged in this type of activity will be subject to disciplinary action up to, and including, termination of employment. Sustainalytics will also report such activity to local authorities as required by local laws and regulations.</p> <p>Sustainalytics aims to provide independent analysis, devoid of undue influence. Accordingly, Research Authors conducting research for ESG ratings are in separate teams from those whose primary responsibility is commercial and sales activities (Institutional Relations) as well as those whose primary responsibility is managing client accounts (Advisory Services). This separation aims to preserve the research objectivity of Sustainalytics' products and services with respect to ESG ratings, indices and screening. Sustainalytics has established a policy review committee/team.</p>

Provider	Extracts from the UN PRI Transparency Report Related to Code of Conduct and Governmental Arrangement (if not stated otherwise)
Vigeo Eiris	<p>Vigeo Eiris has a Code of Conduct that is signed by all employees.</p> <p>Through this Code of Conduct, we apply strict guidelines on work ethics and integrity. In order to prevent conflicts of interest, Vigeo Eiris has a rule that an analyst/ researcher or other employee may not participate in the determination of ratings or other assessments and evaluations if the employee:</p> <ol style="list-style-type: none"> 1. directly owns securities or derivatives of the assessed entity or any related entity. Where such ownership has been declared, he / she must discuss this with his / her line manager and the Compliance Officer, who will decide what action to take. This decision will be recorded by the Compliance Officer. 2. has had an employment or other significant business relationship with the assessed entity within the previous 6 months. 3. has an immediate relation (i.e. spouse, partner, parent, child and sibling) who currently works or has worked within the previous 6 months for the assessed entity.

2.8. Competitive Dynamics

2.8.1. Market Participant Perspectives on Competition

The view on competitiveness varies depending on respondent type. Given that most of the key players have headquarters in the US, but locations in EU member states, we see these conclusions being similar for the EU and US.

Asset managers overall had mixed opinions on the level of competitiveness in the marketplace for sustainability-related products and services. 58% of the responses considered the market to be moderately competitive, with 21% selecting both of the alternative options (highly competitive or barely competitive). When considering competitiveness across the different products and services provided, a greater proportion of asset managers felt that the market for controversy alerts was less competitive than other products and services provided.

In contrast to the responses from asset managers, respondents from sustainability-related data, rating and research providers generally considered all markets for all products and services to be highly or moderately competitive. 37% of responses were "highly competitive" whereas only 16% were "barely competitive" for this group of respondents.

Across all respondents, also including sustainability experts, the provision of controversy alerts were considered to be the least competitive products or service area, and ESG data provision was considered to be the most highly competitive product markets, when comparing total number of "highly competitive" responses minus the total number of "barely competitive" responses.

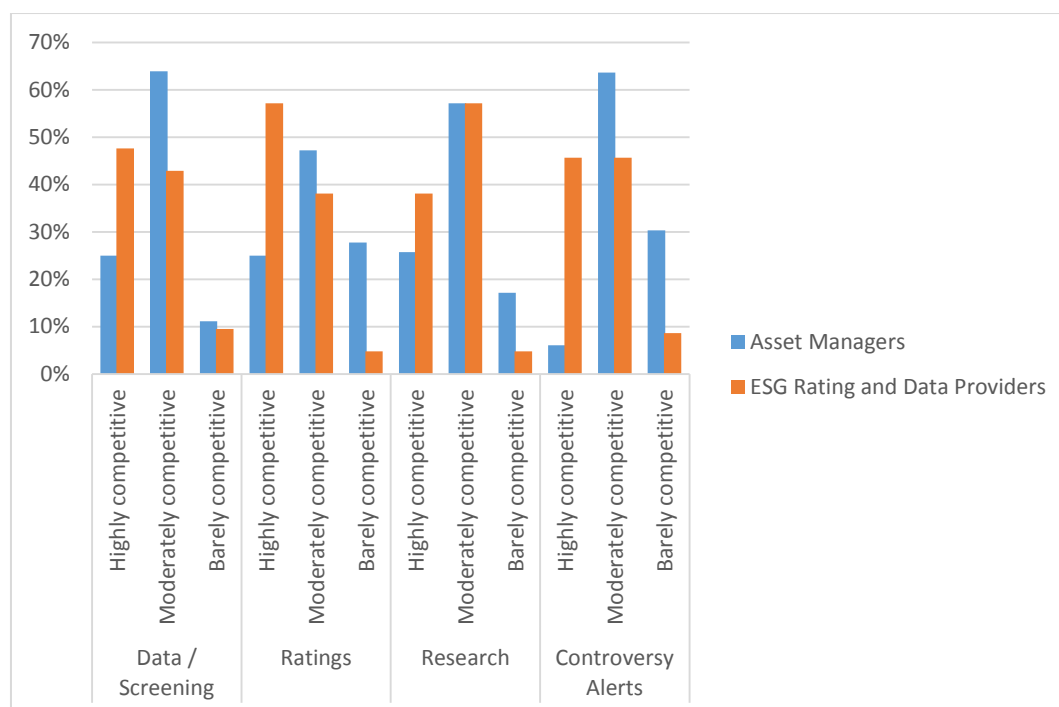


Figure 8: Asset Manager and Sustainability-Related Rating and Data Providers Assessment of Competitiveness across Product Types

2.8.2. Competition across Key Products

Some threats exist to healthy competition across the sustainability-related products and services market. Concerns have been raised by asset managers that some asset owners and investment consultants are not sufficiently familiar with sustainable investment products to be able to accurately assess the degree to which their asset managers are actually integrating sustainability-related considerations into their investment process.¹²⁷ This could allow asset managers to simply buy a suite of products from an ESG data provider and argue that they are running a sustainable fund as a consequence.

The high demand for multiple products from users of sustainability-related products and services create incentives for innovation and space for new market entrants. Investors are increasingly purchasing data, ratings and research from multiple providers, in order to support having a wide variety of sources and perspectives from different providers.¹²⁸ A study encompassing interviews with 3 Dutch, 3 German and 4 UK asset owners, all with AUM of over EUR 30 Billion confirmed that asset managers often opt to use established ratings providers and subscribe to more than one provider.¹²⁹ Two thirds of respondents to the same study buy from more than one sustainability-related ratings

¹²⁷ SustainAbility, *Rate the Raters 2020: Investor Survey and Interview Results*, March 2020, <https://www.sustainability.com/globalassets/sustainability.com/thinking/pdfs/sustainability-ratetheraters2020-report.pdf>.

¹²⁸ SustainAbility, *Rate the Raters 2020: Investor Survey and Interview Results*, March 2020, <https://www.sustainability.com/globalassets/sustainability.com/thinking/pdfs/sustainability-ratetheraters2020-report.pdf>.

¹²⁹ Stephanie Mooji, *The ESG Rating and Ranking Industry; Vice or Virtue in the Adoption of Responsible Investment?*, 11 April 2017, SSRN, <https://ssrn.com/abstract=2960869> or <http://dx.doi.org/10.2139/ssrn.2960869>.

provider, while in comparison, 84% of respondents bought from at least four sell-side brokers, with the remainder buying from two.¹³⁰

Specialist sustainability-related data providers are competing with mainstream financial data providers to provide global comprehensive datasets to investors, while NGOs like CDP are collating data on specific issues such as deforestation and water risk from company disclosures and completed questionnaires. Furthermore, new challengers are arriving in the shape of firms using AI and machine learning to scrape data from online sources. ESG screening and weighting services have a similar competitive dynamic, although sales and client-accessible platforms are critical to the success of these products, which makes new entrants less likely.

The market for sustainability-related ratings has fewer competitors than for data services overall, but there are still significant barriers to entry. In recent years larger players have acquired smaller and regional specialists increasing their market share, decreasing the number of market players, and making it more difficult for new entrants to compete (see Part I section on Market Trends). The major barrier to market entry is the high-level investment needed to establish an alternative product that covers a broad range of sustainability issues, encompassing many thousands of data points, across thousands of companies. Because the market is still rapidly evolving, there are niche opportunities for new entrants who can bring innovative solutions, for example, through new methodologies and technologies for data aggregation and analysis, and for providers who focus on a particular geography or topic-area, such as climate change or human rights.

There is currently only one major pure-play provider of controversy alerts (RepRisk), although most of the major ESG ratings providers offer similar services, often as part of a broader suite of products.

2.9. Employee Numbers

Data on the total number of ESG-related staff, which includes ESG Data Processors and ESG Analysts or Researchers, for a selection of sustainability-related ratings, data and research providers is presented in the table below. This also includes the number of company ratings per analyst undertaken, the number of companies covered in the analysis and the number of years of data or research experience reported by each provider. Where the company is named, the data is taken from public sources of information. Where the company name is withheld, this data was obtained through confidential survey responses from the survey conducted for this study.

¹³⁰ Project team interviews and survey responses, 2020.

Table 20: Sustainability-Related Staff and Coverage by Sustainability-Related Product and Service Providers

Provider ¹³¹	Total ESG-Related Staff	ESG Data Processors	ESG Analysts / Researchers	Ratings per Analyst (* = Estimated) ¹³²	Companies Covered	Years of Data / Research Experience
MSCI Research ESG Rating	350	150	200	~ 50*	13 500 (2 000 in EU)	40+
ISS ESG ESG Rating	400		180	~ 55*	10 000	25+
RepRisk ESG Data	85	20	65	~ 60*	4 000	13+
Refinitiv ESG Data	150+		150+		9 400 (2 100 in EU)	18+
Confidential ESG Rating			205	40		
Confidential ESG Data			130	75		
CDP ESG Data	400		30		9 000 (3 000 in EU)	15
Vigeo Eiris ESG Rating	240		140	29		17
Sustainalytics ESG Rating	447		200		4 000	26
S-Ray Arabesque ESG Rating	50		10		7 000	
ECPI ESG Ratings	15				4 000	15
Confidential ESG Rating		4	2			
Confidential ESG Data		1	1	20		
Confidential ESG Rating		10	10			
Confidential ESG Rating		3	5	15		23
Confidential ESG Research		13	10	80		

¹³¹ We have only listed the primary activity in the table for comparison and context – every company on this list will also provide other ESG-related products and services.

¹³² Where estimated, this uses data on the number of analysts and the number of companies covered. Where not estimated, and company is named, data is taken from publically disclosed information.

Data from desk-based research and, where the name of the provider is confidential, the survey conducted for this study.¹³³ The survey data also includes limited data for a further 5 confidential providers not included in the table above who are smaller in scale.

Company size and volume of products and services provided is a significant determinant in the number of staff allocated to the production of sustainability-related products and services varies across providers. Larger sustainability-related product and service providers, which in turn tend to provide a higher volume of sustainability-related products and services and analyse a large number of companies, have the highest number of ESG related staff. For example, MSCI, S&P Global, ISS, Vigeo Eiris and Sustainalytics all report that they employ between 200 and 500 ESG-related professionals worldwide, including ESG data processors and analysts.¹³⁴

Other key factors include:

- Methodology adopted to collect, aggregate, analyse and assess data and information, for example, the use of automated data collection, web-scraping or artificial intelligence (AI). In general, the deployment of information technology over time results in less demand for ESG data processors and analysts.
- Engagement of sub-contractors to undertake ESG data research or analysis – for example, one large ESG data provider reported that they outsource the analysis of data and information received from companies which significantly reduces their need for in-house ESG data processors and analysts.

The split of ESG functions amongst the ESG-related staff employed by the providers depends on the focus of the provider. Principally, the core roles are ESG Data Processors, who gather but do not process data, and ESG Analysts or Researchers, who use analytical judgement to define data collection.

The average number of companies or assets covered per analyst from the survey undertaken for this study was found to vary from between 15 to 20 (reported by two small providers both with less than 5 ESG analysts) and between 29 to 75 for larger providers. Overall, the mean average number of companies covered per analyst is 47. It should be noted that this data is not typically publically reported by providers, with only Vigeo Eiris found to publically report this data point in their 2018 Sustainability Report.¹³⁵ The data presented against the other named companies is estimated based on the number of reported ESG analysts.

The general trend over the past decade has been that the larger providers have become more efficient at data aggregation and analysis, through improvements in methodologies (for example, using advanced templates or segmenting data for ease of analysis) and through the use of information technology or AI to gather data from company websites and provide a degree of automation to the analysis. This reduces the reliance on researchers and analysts to collect and process data from primary sources. However, the amount of data points collected has also increased, with providers now reporting that they collected thousands of data points for each company. Overall this has resulted in a general increase in the ratio of companies covered per analyst.

¹³³ Project team interviews and survey responses, 2020.

¹³⁴ Project team interviews and survey responses, 2020, and the relevant company websites, accessed 2020.

¹³⁵ Vigeo Eiris, *Rating Corporate Sustainability Risks: Raising the Bar with the Ten UN Global Compact Principles*, 2017/2018, http://www.vigeo-eiris.com/wp-content/uploads/2019/05/20190507_Communication-on-Progress_Vigeo-Eiris.pdf.

Part III: Sources, Type of Data and Quality of Assurance Processes

3.1. Introduction

This part of the study explores the different types of data sources on companies collected by sustainability-related rating, data and research providers, the extent to which each source is used, and how sustainability-related product and service providers fill data gaps. This includes:

- **Data Sources:** the definitions of each type of data source, potential relevant regulations, and typical providers of each source;
- **Data Quality Assurance:** how and how frequently sustainability-related rating, data and research providers check the quality and accuracy of the raw data on companies;
- **Data Estimation:** what methods are used to check the quality of data, and how data gaps are filled by providers.

3.2. Data Sources

Data sources utilized by data and research providers can be distilled into three major categories:

1. **data directly from the company** covered includes quantitative and qualitative information disclosed by a company that may be mandated or voluntary;
2. **unstructured company data** (or alternative data) includes information about the company and its operations that is not released through formal company channels (e.g. media reports, nongovernmental organization (NGO) reports or satellite data);
3. **third-party data** includes information on the company from either of the prior two categories that has been collected, packaged and/or analysed and sold to the data and research provider (from another data provider).

Data and research providers commonly utilize data from all three sources with distinctions depending on the methodology, approach and product or service offered. These methodologies are discussed in detail in Part IV: Methodologies. The primary source of information for most providers is self-disclosed company data, as identified by a literature review across 15 data and research providers' publicly available methodologies¹³⁶, as well as the survey and interview responses conducted for this study.¹³⁷ In our survey conducted for this study, 90% of sustainability-related product and service providers collect at least some data from each of the three sources described

¹³⁶ Bloomberg, CDP, Ethispere, FTSE Russell, ISS, MSCI, Refinitiv (Thomson Reuters), RepRisk, S&P Global (SAM CSA), ShareAction, State Street, Sustainalytics, Trucost, Vigeo Eiris

¹³⁷ There were 29 respondents to the survey undertaken for this study from sustainability ratings, data and research providers, 10 of which were based in EU member states. It should be noted that most of the largest ESG ratings and data providers, including those that participated in the survey for this study, are not headquartered in the EU member states; however, they all cover EU-based companies in the analysis they undertake.

above. Data directly from the company is the most cited source, followed by third-party data and then unstructured company data (see Figure 9 below).

The following sections explain the details of each of the three major categories and breakdown which provider types typically utilize each source, as well as the different types of data coming from each source.

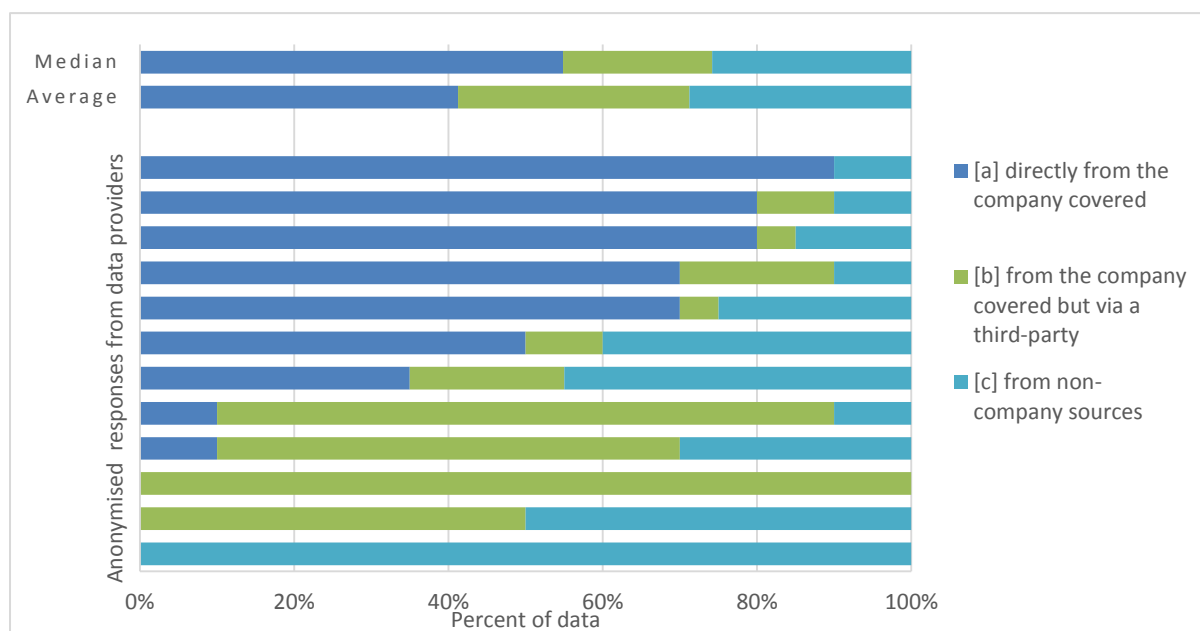


Figure 9: Where Data and Research Providers Obtain Data

3.2.1. Data Directly from the Company Covered

Data directly from the company covered includes quantitative and qualitative information self-disclosed by a company that may be mandated or voluntary. As described below, a data or research provider may collect these data from 1) public company disclosures or 2) a questionnaire. In our survey of data and service providers, all described using public disclosures from companies to inform their products and services.

1. Public Disclosures

This self-disclosed company data may come from:

- company regulatory filings (for example, financial reporting in accordance with the International Financial Reporting Standards; non-financial reporting in accordance with the NFRD);
- voluntary company reports that may include qualitative or quantitative data points (for example, responsibility reports, sustainability reports, UN Sustainability Development Goals report);
- a company's website(s);
- company investor presentations or notes from annual general meetings (as publically available);

- codes of conduct and policies;
- other company filings (e.g. publically available information provided to trade groups or industry associations, as applicable).

Aspects of company disclosed sustainability-related information is mandated (as outlined below with the Accounting Directive and subsequent NFRD) while other disclosures are made voluntarily.

The EU legal framework requires all limited liabilities companies established in the EU to regularly (mostly annually) publicly disclose certain information about their financial performance and position, their business models and risks, their governance, and certain non-financial information. The Accounting Directive specifies the content, the form and the frequency of disclosures by limited liability companies. The Bank Accounts Directive and the Insurance Accounts Directive complement the Accounting Directive with public disclosure requirements specific for EU banks and insurance companies. Finally, the Transparency Directive and the International Accounting Standards Regulation set out additional public disclosure requirements for companies listed on EU regulated markets.

The NFRD went into effect in 2018 in all EU member states, and supports the EU's Sustainable Finance Strategy. The Directive, which is an amendment to the Accounting Directive, requires companies to disclose business impact, development, performance and position (or explain why no information or policy exists) across five business relevant categories for use by end-user investors: environmental matters, social and employee aspects, respect for human rights, anti-corruption and bribery issues, and diversity on board of directors. The NFRD gives flexibility in how companies can disclose relevant information – be it in a management report, or separate report. Therefore, specific pieces of information that the data or research provider may want to collect may not fall under NFRD guidelines, hence data providers will review all of the above disclosures to ensure they collect all publicly available information.

Interpretation of the Directive has varied across countries both in terms of the specificity of topics, and size and type of company required to comply¹³⁸. The Directive also does not mandate a specific framework or disclosure approach be used, but requires companies disclose if and when they use a framework. Though not currently mandatory, the European Commission has published guidelines on non-financial reporting, and, specifically, on reporting climate-related information¹³⁹.

Though the Directive has been helpful in increasing disclosure, data providers still find challenges with data inconsistencies or lack of comparability of peer sets in part because of differences in country-level approaches, and the plethora of frameworks that different companies are using. A UNPRI study across different country-level markets in Europe found that investors still face challenges with a lack of quality data.¹⁴⁰ A significant amount of non-material information is coming from company disclosures and passing through data providers. In early 2020, the European Commission completed a public consultation on the progress of the NFRD, which included 80 responses, the majority

¹³⁸ 'The Non-Financial Reporting Directive: What You Need to Know,' Datamaran, <https://www.datamaran.com/non-financial-reporting-directive/>.

¹³⁹ European Commission, *New Guidelines on Reporting Climate-Related Information*, June 2019, https://ec.europa.eu/info/sites/info/files/business_economy_euro/company_reporting_and_auditing/document_s/190618-climate-related-information-reporting-guidelines-overview_en.pdf.

¹⁴⁰ CFA Institute and PRI, *ESG Integration in Europe, the Middle East, and Africa: Markets, Practices, and Data*, 2019, <https://www.unpri.org/download?ac=6036>.

support to revise and strengthen NFRD provisions to account for some of the challenges listed above; the NFRD review is due to be published soon.¹⁴¹

In 2020, 90% of all S&P 500 companies published a sustainability/responsibility report indicating increasing self-disclosure by companies.¹⁴² A range of voluntary sustainability reporting standards, guidelines and frameworks exist, including the SASB standard that focus on industry-specific material issues, the GRI standards, the International Integrated Reporting Council International Framework and the Financial Stability Board TCFD, which has developed voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers and other stakeholders. These standards and guidelines are increasingly being used by companies to guide reporting.¹⁴³

Given the significant growth in data available and the various locations the data is housed (multiple reports, websites, etc.), new technologies are increasingly supporting digital data collection and dissemination in a more efficient manner. A prominent example of new technology use is Arabesque S-Ray, which uses self-learning quantitative models and data scores to collect information and analyse the performance of over 7 000 listed companies (1 614 of which are based in Europe). S-Ray was established in 2018 as a Frankfurt-based unit of Arabesque Asset Management, based in London. The German firm secured USD 20 million in funding from German backers Allianz X, the German state of Hessen and German asset management groups Commerz Real AG and DWS in 2019, and its client base continues to grow in Europe (recent public clients include Deutsche Bank, Societe General, Aktieinvest Forsta AP-fonden and Handelsbanken). An increasing number of data providers indicate they are exploring or implementing at least some form of natural language processing, greater automation, AI, machine-learning and other technological tools to scrape relevant information.

The responses to the survey conducted for this study shows that no major sustainability-related rating, data and research provider relies solely on publicly available information from companies (see Figure 9, above), all except a few listed in the following section utilize direct engagement with companies in some capacity, and many often rely on data from third parties or indirect company data for pieces of information. The few data providers that do not directly use publicly available company data are those in the below group that use questionnaires, as well as those that indirectly receive the information through third parties, such as State Street R-Factor.¹⁴⁴

Questionnaires

A small number of specialized sustainability-related product and service providers create questionnaires (also known as surveys) that are periodically sent to companies as the

¹⁴¹ 'EU Green Deal and NFRD review: Will the EU manage to turn strategies into actions and move towards more consistent and comparable non-financial reporting?' Climate Disclosure Standards Board. 31 March 2020. <https://www.cdsb.net/eu-non-financial-reporting-directive/1029/eu-green-deal-and-nfrd-review-will-eu-manage-turn>

¹⁴² Governance & Accountability Institute, *2020 S&P Flash Report*, July 2020, <https://www.ga-institute.com/research-reports/flash-reports/2020-sp-500-flash-report.html>.

¹⁴³ SustainAbility, *The Art of Alignment: Sustainability & Financial Transparency*, December 2019, <https://sustainability.com/wp-content/uploads/2019/12/sustainability-the-art-of-alignment-full-report.pdf>.

¹⁴⁴ Todd Bridges, Matt DiGuseppe, Stefano Maffina, Caitlin McSherry, and Ali Weiner, 'R-Factor™ Reinventing ESG Investing Through a Transparent Scoring System' (White paper, State Street Global Advisors, July 2019), <https://www.ssga.com/investment-topics/environmental-social-governance/2019/04/inst-r-factor-reinventing-esg-through-scoring-system.pdf>.

major source of information for their products. Questionnaires are standardized sets of questions asked of all companies, and used to collect primary ESG data on companies. The two major sustainability-related ratings and data providers that use questionnaires to collect company data and information include the following:

The S&P SAM Corporate Sustainability Assessment (CSA) (formerly RobecoSAM) annually sends a questionnaire to selected companies every March. In 2019, the SAM CSA assessed 677 companies from 23 European countries – with at least 10 companies each from the following countries: Finland, France, Germany, Italy, the Netherlands, Spain, Sweden and the United Kingdom.¹⁴⁵ Company responses to the questionnaire are the primary source of the SAM CSA score and rankings and cover broad ESG topics (with some industry-specific requirements). Notably, CSA SAM has recently aligned some of its questions with a number of other frameworks to reduce reporting burdens on companies – those include CDP, EcoVadis, GRESB and the EDGE Certified Foundation.

CDP, which focuses on targeted data and scores for climate, water, waste and forests, utilizes a formal questionnaire as well. CDP's questionnaire and scoring methodology is publicly available on its website, along with extensive documentation of annual updates. CDP's Climate questionnaire has seen the most growth in use, with 882 European companies, making up 76% of Europe's market capitalization, responding in 2019.¹⁴⁶ CDP Water collected questionnaires from 795 European companies.¹⁴⁷ The newer CDP Forests collected responses from 543 companies globally.¹⁴⁸ As mentioned above, the SAM CSA has aligned some of its questions on climate, water and forests to CDP's questionnaire to decrease reporting burdens.

Other specialized sustainability-related rating, data and research providers that use questionnaires are focused more narrowly on the 'S' in ESG. They include the Bloomberg Gender Equality Index, Equileap (Gender and Equality Global Report Ranking), and ShareAction (Workforce Disclosure Initiative). Investors have shown increased interest in these topics, which has correlated to a rise in specialized providers in the space.¹⁴⁹

3.2.2. Unstructured Company Data

Unstructured company data includes information about the company that does not come directly from company communication channels (data that comes from sources other than regulatory filings, reports, website, surveys, interviews, etc.). This is also referred to alternative data by some providers.

¹⁴⁵ S&P Global, *Europe Status Report 2019*, April 2020, <https://www.spglobal.com/esg/csa/insights/2019/europe-status-report-2019>.

¹⁴⁶ CDP, *Doubling Down: Europe's Low Carbon Investment Opportunity*, February 2020, https://6fefcbb86e61af1b2fc4-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/reports/documents/000/004/958/original/Doubling_down_Europe's_low_carbon_investment_opportunity.pdf?1586852291.

¹⁴⁷ CDP, *Cleaning Up Their Act: Are Companies Responding to the Risks and Opportunities Posed by Water Pollution?*, 2020, https://6fefcbb86e61af1b2fc4-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/reports/documents/000/005/165/original/CDP_Global_Water_Report_2019.pdf?1591106445.

¹⁴⁸ 'The A List 2019', Companies Scores, CDP, <https://www.cdp.net/en/companies/companies-scores>.

¹⁴⁹ Declan Harty and Maria Tor, 'Consolidation among ESG Data Providers Continues amid COVID-19 Pandemic', *S&P Global Market Intelligence*, *S&P Global*, April 29 2020, <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/consolidation-among-esg-data-providers-continues-amid-covid-19-pandemic-58306410>.

Prior to new technology and new uses of AI, the only unstructured company data used by sustainability-related rating, data and research providers were news and media reports. The leading provider in that space is RepRisk, which utilizes advanced machine learning to capture ESG insights from public sources (e.g. media reports, NGO reports, social media). RepRisk feeds directly into investment decision-making, as well as feeding into other sustainability-related rating, data and research providers (e.g. SAM CSA and FTSE Russell).

New technology and uses for technology have enabled data providers to explore alternative ways to collect data. One emerging area is the use of AI and machine learning to pull information on companies from public sites, including media sources and NGO reports, but also crowdsourcing sites, such as LinkedIn or Glassdoor. ESG ratings and research providers are utilizing machine learning to make the data collection process more efficient – for instance, one provider uses machine learning to highlight specific sections or sources that an analyst would then further study.¹⁵⁰

MSCI lists their unstructured data sources (or alternative data sources) as including macro data at a segment or geographic level from academic, government and NGO datasets (e.g. Transparency International, United States Environmental Protection Agency, World Bank) and government databases, 1 600+ media, NGO and other stakeholder sources regarding specific companies.¹⁵¹

Another interesting development is the use satellite images by sustainability-related data and research providers.¹⁵² This usage is still quite limited given the high cost barrier to use of satellite images – investors themselves are piloting the use of satellite imagery given larger budget sizes (e.g. Robeco utilizes satellite imagery to confirm if palm oil producers are adhering to deforestation commitments).¹⁵³ Satellite imagery is also limited given the specificity of the issues that can be analysed via land imagery – those are mainly environmental (e.g. logging, road building), but there are innovative examples of satellite imagery to look at social issues, such as child labour.

3.2.3. Third-Party Data

Given the organization of the sustainability-related information ecosystem, a number of rating, data and research providers rely on other data and research providers to provide all or part of their data. These data, called “third-party data,” is repackaged by sustainability-related data providers, often combined with other information or analysis and sold in an easy to use format, such as a dashboard or report. The original data derives either directly from company disclosures or from unstructured company data.

For example, the largest third-party data provider, Bloomberg, collects information from a vast array of sources. The Bloomberg terminal includes information from other data and research providers, such as Sustainalytics ESG ratings, SAM CSA scores, ISS QualityScores and CDP Climate scores. In this instance, the data provided by CDP may

¹⁵⁰ Information from a project team interview with leading sustainability-related rating, data and research provider.

¹⁵¹ MSCI, ‘MSCI ESG Ratings Methodology’ (Research paper, MSCI, September 2019), <https://www.msci.com/documents/1296102/14524248/MSCI+ESG+Ratings+Methodology+-+Exec+Summary+2019.pdf/2dfcaeee-2c70-d10b-69c8-3058b14109e3?t=1571404887226>.

¹⁵² Generation Investment Management, *The Future of ESG Data*, December 2019, <https://www.generationim.com/research-centre/insights/the-future-of-esg-data/>.

¹⁵³ Susanna Rust, ‘ESG Roundup: Robeco to Pilot Satellite Imagery Use’, *IPE*, 13 November 2019, <https://www.ipe.com/esg-roundup-robeco-to-pilot-satellite-imagery-use/10034553.article>.

be considered third-party data since it is being sourced from CDP and not directly from a company sustainability report. If another data and research provider in turn sources information from the Bloomberg Terminal that would be considered use of third-party data since the data did not come directly from the company.

In another example, an ESG-rating provider may utilize information from another data and research provider, such as RepRisk, a firm that pulls unstructured company data from media reports, to package and sell that with other analysis in the form of a rating or assessment of a given company. Both the data pulled from RepRisk and the overarching company ESG rating, would be considered third-party data because neither are coming directly from the company in question.

Respondents to the project survey provided diverse answers when asked about what percentage of data that they present or use that is sourced from third-party data providers (from 0 to 100%). There is no clear consensus around a certain percentage of data coming from each source, it varies by provider. Of those respondents that use some form of third-party data, the data is mainly sourced from other data providers (see Figure 10). Small percentages of data are sourced from government/regulatory sources, industry bodies, news media or NGOs.

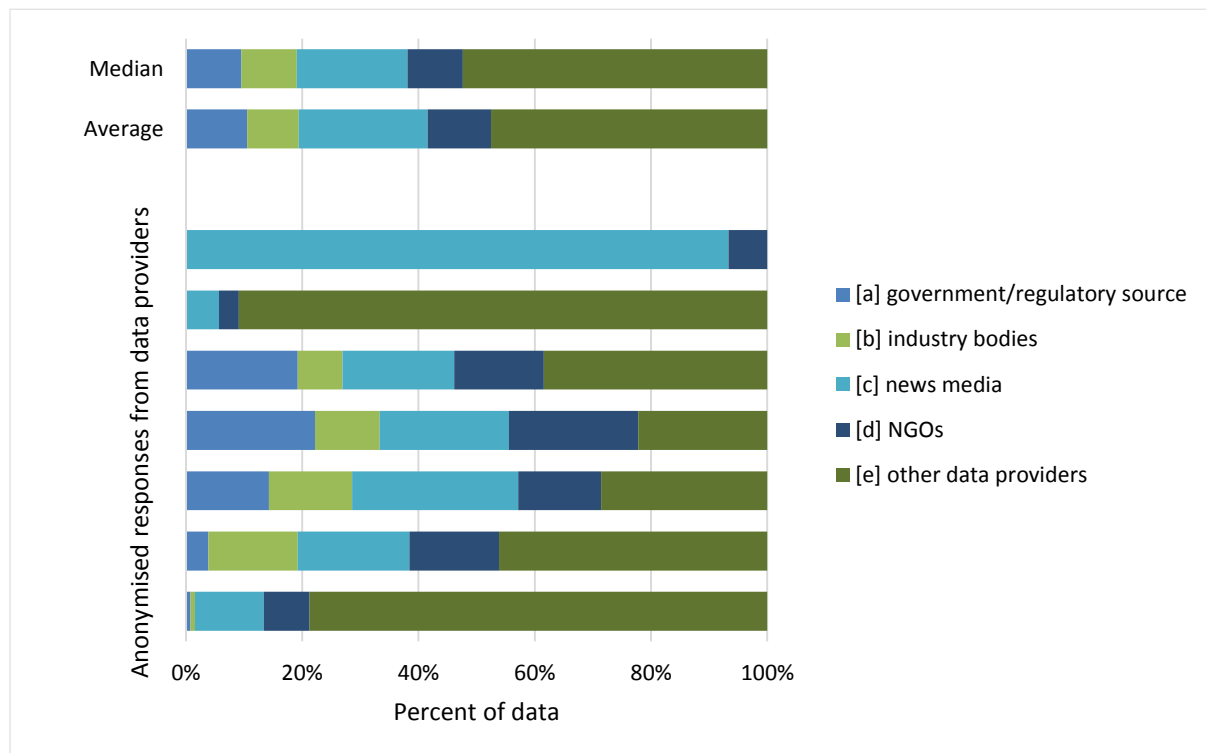


Figure 10: The Percent of Data That Sustainability Products and Service Providers Collect from Different Types of Third-Party Sources

3.3. Data Quality Assurance

This section focuses on the quality assurance process that sustainability-related rating, data and research providers undertake for their inputs. More specifically, quality assurance refers to the means by which the provider verifies the information it collects on companies.¹⁵⁴

Besides Refinitiv, outlined below, there is not detailed publicly available information on the data verification process. Refinitiv's approach includes a multi-step process with both algorithmic and human checks, as well regular internal audits to insure data accuracy.

Data quality is a key part of the collection process; that is why we use a combination of both algorithmic and human processes to make sure we achieve as close to 100% data quality as possible. Below is an overview of the various methods we use to achieve this goal.

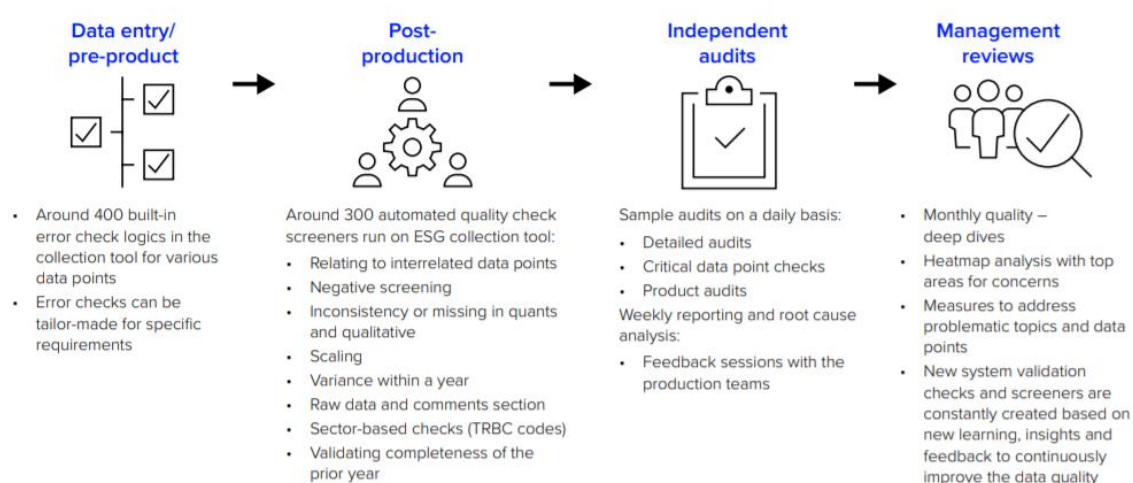


Figure 11: Refinitiv's Data Quality Control Process as Outlined in Their Methodology¹⁵⁵

All 14 providers who responded to the question in the survey conducted for this study on data quality assurance noted they have some methods in place for quality checks.¹⁵⁶ Providers highlight a number of ways they assure the quality of their data including, but not limited to: the use of ESG specialists who understand the field and can check for blatant inaccuracies, multiple human checks to account for potential human error, clearly defined source documents, a clearly defined quality assurance methodology with multiple

¹⁵⁴ This is further explored in Rate the Raters: SustainAbility, Rate the Raters Phase Three: Uncovering Best Practices, February 2011.

¹⁵⁵ Refinitiv. Environmental, Social and Governance (ESG) Scores from Refinitiv. April 2020. https://www.refinitiv.com/content/dam/marketing/en_us/documents/methodology/esg-scores-methodology.pdf.

¹⁵⁶ Project team interviews and survey responses, 2020.

human and computer control checkpoints, weighting externally verified data and opportunities for company verification.¹⁵⁷

One provider notes that they “collect the data from public sources and give companies the opportunity to check the data we have collected. We provide full transparency to enable clients and companies to understand where each data item has come from.”¹⁵⁸ Another outlines a more complex process noting that by sourcing from a third-party, the data may already be quality checked: “As we rely on third party providers for our data, the data has already been quality checked when it is ingested. Nevertheless, all inputs are subject to a set of data quality checks, such as false outlier detection and where necessary, poor-quality data gets discarded. Additional checks also take place to ensure that data is up-to-date. This process, in conjunction with the use of multiple data providers and news sources gives us some resilience against data gaps.”¹⁵⁹ The table below is the response by an anonymous provider to the project survey, of the multiple checks they have in place to ensure data quality.

Because each company publishes reports and datasets at different points in the year, and there are increasing amounts of information from independent sources on a regular basis, providers are more frequently updating and checking their data. Some providers update their data as frequently as once a week and enable companies to submit new information in a portal for review at any time. Where needed, data and scores are updated weekly to reflect new information and potential data corrections. MSCI’s approach is similar, with both automated and manual quality checks of the data and rating at each stage of analysis.¹⁶⁰

We did not hear of any instances of providers using external verification processes for data quality in the survey and interviews conducted for this study and in a review of public reports.

Table 21: Description of Processes in Place to Ensure Data Quality as Outlined by an Interviewee¹⁶¹

Category	Description
Deployment of Specialists	ESG data tends to be an assortment of complex datasets requiring different specializations. Hence, every companies is researched by a team of 10-12 analysts, with specialization in different areas including Risk, Carbon, Clean Technology, Controversies, Corporate Governance, Environment & Social data and Ratings Model. The use of specialist resources for collecting such varied and complex datasets aids in the accurate application of the methodology and in driving consistency. For each company, we also have a separate reviewer who typically is a senior data analyst and approves the data prior to its publication.

¹⁵⁷ Project team interviews and survey responses, 2020.

¹⁵⁸ Response from project team interview with prominent data and ratings provider, 2020.

¹⁵⁹ Response from project team interview with prominent data and ratings provider, 2020.

¹⁶⁰ MSCI, ‘MSCI ESG Ratings Methodology’ (Research paper, MSCI, September 2019), <https://www.msci.com/documents/1296102/14524248/MSCI+ESG+Ratings+Methodology+-+Exec+Summary+2019.pdf/2dfcaeee-2c70-d10b-69c8-3058b14109e3?t=1571404887226>.

¹⁶¹ Response from project team interview with prominent data and ratings provider, 2020.

Category	Description
Sources	<p>The documents used for sourcing and estimating each data set is formally defined to ensure that our research is comprehensive and is based on approved authentic sources. These include:</p> <ul style="list-style-type: none"> • Macro data at segment or geographic level from academic, government, NGO datasets • Company disclosure (10-K, sustainability report, proxy report, AGM results, etc.) • Government databases, 1,600+ media, NGO, other stakeholder sources
Methodology	<p>Our data collection processes are guided by documentation of methodology specific to the datasets and include industry and market considerations. These support the analysts in consistent application of the methodology while profiling the companies. This ensures independence and objectivity of our data collection and company's ESG assessment.</p>
Process Controls	<p>Our production processes are guided by process controls laid out through the entire production process including data collection, review and escalation, publication and the data delivery process to ensure accuracy of the data delivered to our clients. We also have formal incident management protocols in place that define our response mechanism to incidents, if any and the ownership for immediate and long term resolution of issues and process vulnerabilities.</p>
System Controls	<p>We deploy extensive system based controls in production platform and in our data delivery processes at various stages of the data collection process that ensure adherence to our processes and the consistent application of the methodology. These checks are built based on pre-specified conditions related to the datasets and exceptions identified are reviewed and confirmed separately.</p>
Manual Controls	<p>The Quality Review Committee (QRC) aims to conduct data quality checks on all companies prior to the ESG Ratings publication. The QRC's model is built on query extracts from internal databases. The QRC has also instituted automated quality checks in these databases that flag to the committee when pre-specified conditions relating to ratings/score changes are triggered, or any suspect values.</p>
Company Verification	<p>Companies are invited to participate in a formal data verification process (through a dedicated portal). Depending on the feedback received, correction of the relevant dataset(s) including derived data may be triggered.</p>
Performance Monitoring and Reporting	<p>The QRC also monitors and reviews a variety of quality metrics related to (a) design, (b) methodology, (c) content and (d) timeliness of data based on feedback from clients, companies and internal stakeholders which drives continual improvement in our data quality.</p>

Company engagement as a form of data quality assurance

A number of providers, including Bloomberg, CDP, FTSE Russell, ISS, MSCI, S&P SAM and Trucost, Workforce Disclosure Initiative, Vigeo Eiris and

Sustainalytics, utilize company verification as part of their data accuracy process.

Those providers may flag specific areas they want companies to review, including missing data, conflicting data from different sources or a large change in data between years. Increasingly providers are creating online platforms and individual companies accounts as mechanisms for providing updates to companies and for companies to respond to the rating or ask questions – those providers include Bloomberg CDP, FTSE Russell, ISS, MSCI, Refinitiv, S&P, Sustainalytics and Vigeo EIRIS. Bloomberg has a continuous feedback system, but others only enable verification on an annual or semi-annual basis.

Providers often have a separate team that handles company communications and then reports back the information to analysts who ultimately make decisions on if/when an update in the data is required. Companies must present publicly available data in order for a data change to be considered. If a piece of information is updated, most providers have policies which necessitate including a note in the final report or rating indicating what has been updated and when. FTSE-Russell provides documentation of its full recalculation process for companies when they choose to file a complaint.¹⁶² A few providers, in order to ensure full transparency with customers, will also make a note of company engagement on a piece of information in the report even if the provider chooses not to update the information.

There is a disconnect with what ratings providers say they offer, and the experience issuers (companies) actually have with providers as outlined in part 4, and more deeply in part 5.

3.4. Data Estimation

The survey and interviews conducted for this study explored the extent to which data and research providers use estimates to cover gaps in company disclosures. 57% of respondents from the survey indicated that they use some form of data estimation, but none marked estimation as a significant data input for research/analysis. Providers that use estimation include, but are not limited to: Vigeo Eiris, Refinitiv and MSCI.

Of those that do some form of data estimation, only three major areas were indicated:

1. Carbon emissions data

Data providers have been using sector comparisons to estimate gaps in carbon reporting. Whilst somewhat rudimentary a few years ago, this modelling has improved considerably. Organisations that generate these estimates in-house, often use proprietary methodologies. Three respondents to the survey specifically mentioned estimating emissions data and also share that information in their public methodologies – Vigeo Eiris, Refinitiv and MSCI. In all three instances, they offer tailored climate change and carbon products to investors. Vigeo Eiris offers carbon and energy transition performance ratings of companies in an investor portfolio.¹⁶³ Refinitiv provides raw data

¹⁶² FTSE Russell, *ESG Data and Ratings Recalculation Policy and Guidelines*, September 2020, https://research.ftserussell.com/products/downloads/Recalculation_Policy_and_Guidelines_ESG_Products.pdf.

¹⁶³ 'TCFD-aligned climate solutions to help you mitigate climate risks and leverage opportunities', 'Solutions for Investors', Vigeo Eiris, <http://vigeo-eiris.com/solutions-for-investors/cutting-through-the-complexity-of-climate-risks/>.

on company carbon emissions¹⁶⁴, and MSCI provides a suite of climate products including MSCI index carbon footprint metrics, and climate risk exposure.^{165,166}

2. Coverage

This refers to different parameters covering a specific topic – e.g. if the content covers all employees or operations versus only the biggest locations; or if the data being analysed covers operations versus the broader supply chain? Only a few data and research providers noted making this kind of coverage estimation based on contextual information.

3. Revenue estimates

As statutory filings of companies do not include granular breakdowns by type of product, business activity or geography, data and research providers may estimate these amounts. One data and research provider noted that they may estimate what portion of revenue may be impacted due to controversial business activities or impacts on specific material issues. Another described how they will estimate the percent of the business that they consider is “green revenues” based on their own parameters. Only two respondents mentioned making these estimations. One public example is MSCI’s use of revenue estimates for exclusionary screening indices (e.g. for revenues from thermal coal).¹⁶⁷

¹⁶⁴ Refinitiv, *Refinitiv ESG Carbon Data & Estimate Models*, https://www.refinitiv.com/content/dam/marketing/en_us/documents/fact-sheets/esg-carbon-data-estimate-models-fact-sheet.pdf.

¹⁶⁵ ‘MSCI index carbon footprint metrics’, *ESG Indexes, MSCI*, <https://www.msci.com/index-carbon-footprint-metrics#:~:text=MSCI%20measures%20carbon%20emissions%20and,provided%20by%20MSCI%20ESG%20Research.&text=When%20reported%20carbon%20emissions%20data,Research's%20proprietary%20carbon%20estimation%20model>.

¹⁶⁶ https://www.msci.com/documents/1296102/1636401/MSCI_ESG_Carbon_Metrics_June2015.pdf/42211287-241c-4344-8b36-628501499f54.

¹⁶⁷ MSCI, ‘MSCI ESG Screened Indexes Methodology’ (Research, MSCI, November 2019), https://www.msci.com/eqb/methodology/meth_docs/MSCI_ESG_Screened_Indexes_Methodology_Nov2019.pdf.

Part IV: Data Assessment Process and Transparency of Sustainability-Related Rating Methodologies

4.1. Introduction

This part of the study explores the methodologies used by sustainability-related rating providers to assess companies, how often those methodologies are updated and the extent to which those methodologies are transparent. This section considers the following aspects:

- **Rating Methodologies:** The assumptions and criteria that are used to measure sustainability-related performance. If and how standards or taxonomies are used and in what ways; and the extent to which differentiation of sustainability measurements occur across economic sectors or industries.
- **Methodology and Scoring Updates:** The frequency with which rating methodologies are reviewed and updated along with how frequently company ratings are updated.
- **Transparency:** The level of disclosure and transparency of methodologies to companies and investors.
- **Bias:** Whether methodologies can be biased, and the potential consequences of any bias.
- **Ratings Correlation:** Review the level of correlation between results of assessments of the same company across different providers, the reasons for any discrepancies and potential consequences of this.

This section was primarily informed by an analysis of 11 rating provider methodologies using publicly available information from the rating firm reports, scoring brochures, rating manuals and methodology or FAQ documents. These ratings included the following:

- Bloomberg ESG Disclosure
- CDP Climate Change
- FTSE Russell ESG Ratings
- ISS-ESG Corporate Rating
- ISS QualityScores
- MSCI ESG Rating
- Refinitiv (Thomson Reuters) ESG Rating
- RepRisk Index
- SAM Corporate Sustainability Assessment (DJSI)
- Sustainalytics Risk Rating
- Vigeo Eiris ESG Rating

These firms were selected for their market coverage (number of companies rated), influence on other ratings and use by investors. Each of the above providers rate at least

450 companies and several, such as CDP and RepRisk, are utilized by other ratings as third-party data inputs. According to the 2020 Rate the Raters¹⁶⁸ investor survey and interviews, the three most highly evaluated by investors for usefulness include Sustainalytics, CDP and MSCI. Note that many of these firms provide other sustainability-related products and services, but for the sake of this portion of the study, the focus is on their rating products.

Methodologies were assessed across several characteristics, including approach, data inputs, transparency, quality of review and frequency of updates. This section is also informed by further desk research and academic papers investigating sustainability-related rating and research provider methodologies and practices, which are referenced throughout the section. Findings from the study survey are also incorporated.

4.2. Sustainability-Related Rating Methodologies

4.2.1. Ratings Approach Overview

To produce a rating, a provider will typically perform the following tasks.

1. **Identify indicators** that determine which indicators of sustainability or ESG exposure or performance are most material to the sector in question.
2. **Gather a set of data points** for the identified indicators on the company in question from company public disclosures (reports, websites), survey responses, unstructured company data (news or other media, NGO data, governmental data) or third-party data. **Assess the data** gathered for consistency and sometimes estimate any missing data points (not all rating providers estimate data points).
3. **Quantify qualitative data points through scoring or ranking methodologies;** score or evaluate quantitative data points through scoring or ranking methodologies. Combine these data points with regard to the predetermined weighting system applied to the indicators to create either, or both:
 - a sector-relative score for a company that assesses its performance relative to its peer group;
 - an absolute score.

The following sections outline further detail around each of the three steps outlined above.

Step 1: Identify Sustainability/ESG Issues and Indicators

With the exception of RepRisk and CDP, all providers analysed categorize relevant issues into some form of 'Environmental, Social and Governance' grouping. Small exceptions include SAM's use of 'Economic' rather than 'Governance' on the CSA. Each rating provider is different and may use terms like 'topics' 'themes' or 'issues' to indicate areas that they consider when evaluating sustainability or ESG exposure. Common issues across E, S and G selected across rating providers include, but are not limited to those outlined in the below table. Issue selection is ultimately up to the rating provider, and

¹⁶⁸ ERM, *Rate the Raters 2020*, March 2020, <https://www.sustainability.com/thinking/rate-the-raters-2020/>.

this is where differences in methodology approaches, and ultimately differences in the final company rating, start to appear.

Table 22: Common Environmental, Social and Governance Issues

Environmental	Social	Governance
<ul style="list-style-type: none"> • Climate change • Natural resource use • Waste • Product stewardship 	<ul style="list-style-type: none"> • Workforce • Occupational health and safety • Product responsibility • Human rights • Supply chain 	<ul style="list-style-type: none"> • Corporate governance • Risk management • Ethics • Shareholder rights • Sustainability oversight

Once a set of issues has been identified, rating providers will then select specific indicators, metrics or KPIs that demonstrate performance against an identified issue. For example, a rating provider may have identified 'climate change' as a relevant *issue* to consider and use 'carbon emissions' as the corresponding *indicator* to evaluate a company's performance on that issue. While there is some overlap, the number and type of issues and indicators varies by rating agency and should always be considered in a case-by-case basis by the user of the rating. Examples of the key issues assessed by three rating providers MSCI, Refinitiv and FTSE Russell, are included in Figure 12 below.

3 Pillars	10 Themes	37 ESG Key Issues	
Environment	Climate Change	Carbon Emissions Product Carbon Footprint	Financing Environmental Impact Climate Change Vulnerability
	Natural Resources	Water Stress Biodiversity & Land Use	Raw Material Sourcing
	Pollution & Waste	Toxic Emissions & Waste Packaging Material & Waste	Electronic Waste
	Environmental Opportunities	Opportunities in Clean Tech Opportunities in Green Building	Opp's in Renewable Energy
Social	Human Capital	Labor Management Health & Safety	Human Capital Development Supply Chain Labor Standards
	Product Liability	Product Safety & Quality Chemical Safety Financial Product Safety	Privacy & Data Security Responsible Investment Health & Demographic Risk
	Stakeholder Opposition	Controversial Sourcing	
	Social Opportunities	Access to Communications Access to Finance	Access to Health Care Opp's in Nutrition & Health
Governance	Corporate Governance*	Board* Pay*	Ownership* Accounting*
	Corporate Behavior	Business Ethics Anti-Competitive Practices Tax Transparency	Corruption & Instability Financial System Instability

* Corporate Governance Theme carries weight in the ESG Rating model for all companies. In 2018, we introduce sub-scores for each of the four underlying issues: Board, Pay, Ownership, and Accounting.

Figure 12: MSCI ESG Key Issue Hierarchy¹⁶⁹

¹⁶⁹ MSCI, 'MSCI ESG Ratings Methodology' (Research paper, MSCI, September 2019), page 4.

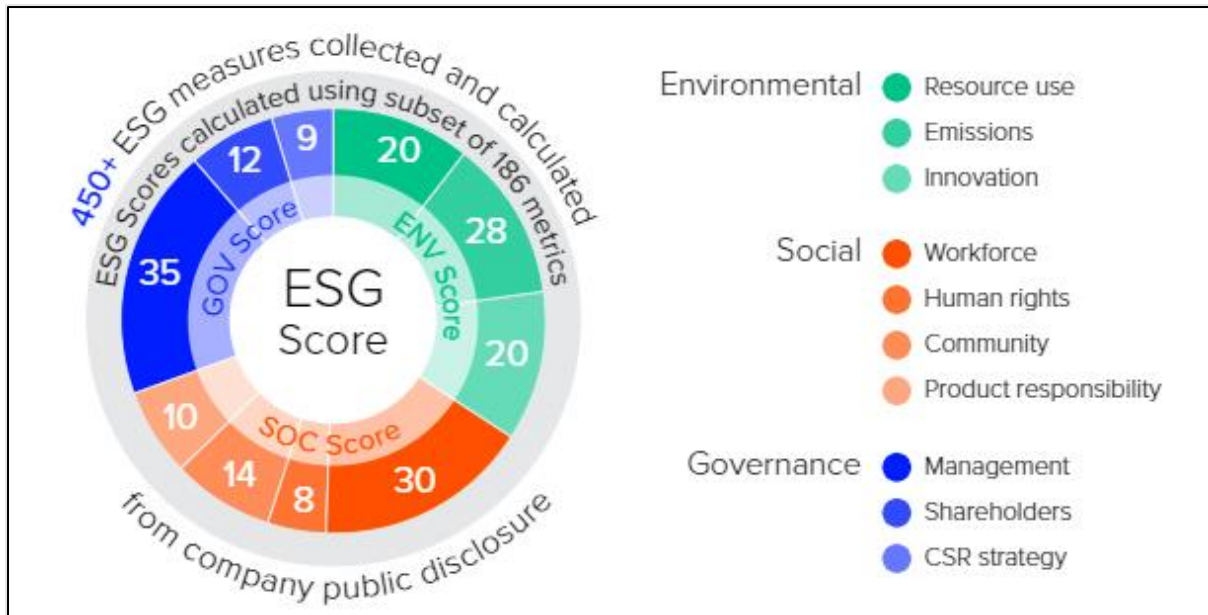


Figure 13: Refinitiv Measured Topics¹⁷⁰

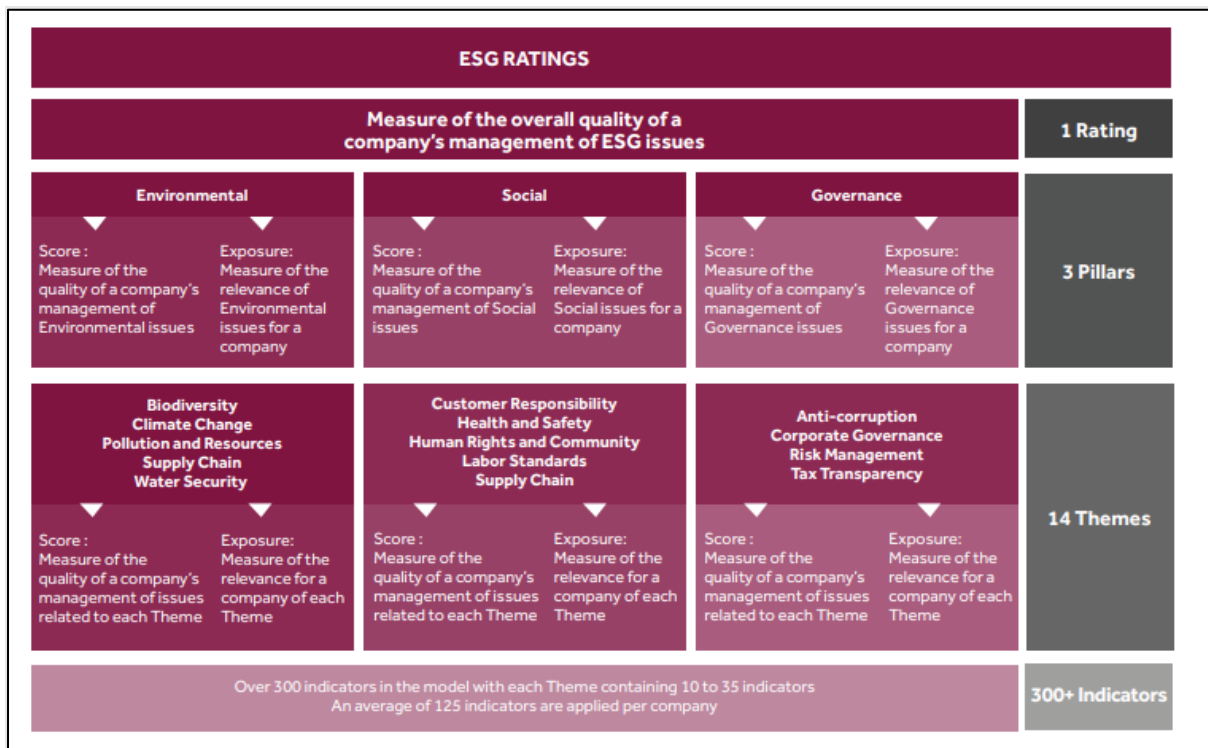


Figure 14: FTSE Russell ESG Issues¹⁷¹

¹⁷⁰ Refinitiv, *Environmental, Social and Governance (ESG) Scores from Refinitiv*, April 2020, page 6, https://www.refinitiv.com/content/dam/marketing/en_us/documents/methodology/esg-scores-methodology.pdf.

The rating providers analysed gather information on anywhere from 70 to 1 000 indicators, depending on the provider. These indicators include both quantitative key performance indicators (e.g. water consumption, total recordable incident rate, Scope 1 greenhouse gas (GHG) emissions) and qualitative assessors (e.g. corporate required health and safety training, board oversight of human rights issues).

The most consistent measurements tend to be in the 'Environmental' category, such as GHG emissions (all Scopes), energy consumption, waste disposed, etc. Units for each indicator can vary across ESG reports and surveys (sometimes depending on country).

Many rating providers do not necessarily use all of the indicators collected on a given company in the final rating. Instead, it is common for rating providers to evaluate which indicators are most relevant for a company based on which industry or sector the company fits within.

Industry or Sector-Specific Issues

All ratings analysed, except for RepRisk, use some level of industry or sector specification, but the degree to which rating provider methodologies cater to industry-specific issues varies. CDP, ISS-ESG, SAM CSA, Sustainalytics, and Vigeo Eiris provide highly customized, question-level differences on issues and metrics within their frameworks depending on company sector. MSCI, Bloomberg, ISS QualityScore, FTSE Russell and Refinitiv include the same starting universe of topics or metrics with refinements based on industry. RepRisk uses the same general bank of topics when scanning for controversies across all companies, agnostic of industry. The remaining eight rating providers leverage some form of industry or sector-specific criteria in their scoring:

CDP: 'CDP's Activity Classification System (CDP-ACS) was developed to allocate sector-specific questions to companies... The sector-based approach allows CDP to make more meaningful assessments of companies' responses, incorporating each sector's characteristics and nuances, resulting in a score that reflects the company's progress in environmental stewardship and enabling better benchmarking against other companies.'¹⁷²

ISS-ESG: "Key issues" are defined for every industry, reflecting the industry's most challenging social and environmental issues. Indicators assessing a company's performance in the key issues account for at least 50% of the overall grade.'¹⁷³

SAM CSA: 'The CSA focuses on criteria that are both industry-specific and financially material, and has been doing so since 1999.'¹⁷⁴

Vigeo Eiris: 'Each criteria is activated and weighted based on its relevance by sector. Three factors contribute to the weighting of each criterion: Nature of

¹⁷¹ FTSE Russell, *ESG Ratings and Data Model*, page 2, <https://research.ftserussell.com/products/downloads/ESG-ratings-overview.pdf?774>.

¹⁷² 'FAQs for Companies', How to Disclose as a Company, CDP, <https://www.cdp.net/en/companies-discloser/how-to-disclose-as-a-company/faqs-for-companies#5-request>.

¹⁷³ ISS Governance, *ESG Corporate Rating: Rating Process Manual for Rated Entities*, September 2019, page 4, <https://www.issgovernance.com/esg/ratings/corporate-rating/>.

¹⁷⁴ 'DJSI/CSA 2020', Corporate Sustainability Assessment, S&P Global, <https://www.spglobal.com/esg/csa/>.

stakeholders' rights, interests and expectations; Vulnerability of stakeholders by sector; and Risk categories for the company.¹⁷⁵

MSCI: 'MSCI ESG Ratings identify six to ten key ESG issues where companies in that industry currently generate large environmental or social externalities. Corporate Governance is assessed for all companies. Weights are set at the GICS Sub-Industry level (8-digit) based on each industry's relative impact and the time horizon associated with each risk.'¹⁷⁶

Sustainalytics: 'Material ESG issues and their exposure scores are assessed at the subindustry level and then refined at the company level.'¹⁷⁷

Bloomberg and ISS QualityScore differ from these providers in that they populate data on hundreds of metrics but do not disclose which data points apply or are relevant to which industry. Bloomberg does specify additional, industry-specific indicators outside their starting universe though for the following sectors: Energy, Financials, Mining, Telecom, Utilities, Airlines, Automobiles, Oil & Gas and Retail.

Controversy Monitoring

Increasingly sustainability-related ratings providers are factoring controversies, allegations and negative news into their assessments of companies as a means of layering in risk exposure and signalling (potential) poor management. For a provider like RepRisk, this is the only component of their rating, but other providers (Sustainalytics, ISS-ESG, SAM, MSCI, Vigeo Eiris and Refinitiv) have unique methodologies for assessing and incorporating company exposure to controversies into their scoring frameworks. Often, the controversy scan process is updated more regularly (e.g. daily or weekly) than a company's final sustainability-related rating.

For MSCI, controversies relevant to a key issue are factored into the key issue score: 'in the ESG Rating model, a controversies case that is deemed by an analyst to indicate structural problems that could pose future material risks for the company triggers a larger deduction from the Key Issue score than a controversies case that is deemed to be an important indicator of recent performance but not a clear signal of future material risk.'¹⁷⁸ Similarly, Sustainalytics layers in 'event indicators' for each material ESG issue, which 'may indicate that a company's management systems are not adequate to manage relevant ESG risks'¹⁷⁹ and, therefore, influence management scores.

ISS-ESG leverages Norm-Based Research by assessing 1) a company's ability to address grievances and remediate negative impacts; 2) the degree of verification of allegations

¹⁷⁵ 'Methodology and Quality Assurance', About Us, Vigeo Eiris, <http://vigeo-eiris.com/about-us/methodology-quality-assurance/?lang=en>.

¹⁷⁶ MSCI, 'MSCI ESG Ratings Methodology' (Research paper, MSCI, September 2019), page 5, <https://www.msci.com/documents/1296102/14524248/MSCI+ESG+Ratings+Methodology+-+Exec+Summary+2019.pdf/2dfcaeee-2c70-d10b-69c8-3058b14109e3?t=1571404887226>.

¹⁷⁷ 'Corporate Lender Information', Sustainable Finance, Sustainalytics, <https://www.sustainalytics.com/sustainable-finance/corporate-lender-information/>.

¹⁷⁸ MSCI, 'MSCI ESG Ratings Methodology' (Research paper, MSCI, September 2019), page 8, <https://www.msci.com/documents/1296102/14524248/MSCI+ESG+Ratings+Methodology+-+Exec+Summary+2019.pdf/2dfcaeee-2c70-d10b-69c8-3058b14109e3?t=1571404887226>.

¹⁷⁹ 'Sustainalytics, *ESG Risk Ratings Methodology - Abstract Version 2.0*, November 2019, page 10, <https://www.sustainalytics.com/esg-risk/>.

and claims; and 3) the severity of impact on people and the environment, and systematic or systemic nature of malpractices.¹⁸⁰

Vigeo Eiris continuously monitors events and controversies, feeding them into their Controversy Risk Assessment Database¹⁸¹ and contacting companies via their online portal for updates or responses. They do not specify how controversies and company responses influence their sustainability-related ratings,¹⁸² however.

In terms of controversy scoring methodologies, only SAM¹⁸³ and Refinitiv¹⁸⁴ provide their calculation methodologies. SAM incorporates a media and stakeholder analysis of cases on a quarterly basis (although scanning occurs daily), and lays out a detailed methodology¹⁸⁵ for determining the impact on criteria score(s). If the media and stakeholder analysis case is deemed severe enough, it may result in removal from one or more indices, even if outside the annual index review cycle.

Only MSCI, Sustainalytics, SAM, and Vigeo Eiris actively provide companies the opportunity to respond and provide updates and context to potentially lower the severity of any controversy analysis.

Step 2: Gather Data and Validate

Data sources are investigated in detail in Part III of this report; the following section outlines how the 11 ratings providers studied in this section source data (as defined in Part 3III) and highlights nuances in their data validation approaches. Across those 11 rating providers, there are two main approaches to gathering data to inform ratings. One is where data points are primarily obtained through a questionnaire that the rating provider has developed and which must be completed by the company (CDP, SAM CSA). The second is where data points are primarily obtained from companies' disclosures (e.g. regulatory filings, company reports and website), unstructured data sources (e.g. media reports, NGO reports or satellite data) or third party data (e.g. from other rating or data providers) to inform a rating or ranking (Sustainalytics, ISS, Bloomberg, MSCI, Vigeo Eiris, FTSE Russell, and Refinitiv).

Self-reported utilization of these data sources by the providers analysed is indicated in the table below. RepRisk is unique as it specifically and only scans media sources, not company disclosed or third-party data, to identify exposure to sustainability-related and business conduct risks by flagging controversies and negative news. CDP data is the most commonly used third-party data source cited by these providers, with explicit reference of use by Sustainalytics, Bloomberg, SAM, Vigeo Eiris and FTSE Russell.

¹⁸⁰ ISS Governance, *ESG Corporate Rating: Rating Process Manual for Rated Entities*, September 2019, page 7, <https://www.issgovernance.com/esg/ratings/corporate-rating/>.

¹⁸¹ 'Management of Risks & Opportunities Controversy Risk Assessment', Solutions for Investors, Vigeo Eiris, <http://vigeo-eiris.com/solutions-for-investors/controversy-risk-assessments/>.

¹⁸² 'Methodology and Quality Assurance', About Us, Vigeo Eiris, <http://vigeo-eiris.com/about-us/methodology-quality-assurance/>.

¹⁸³ SAM S&P Global, *MSA Methodology Guidebook 2020*, 2020, https://portal.csa.spglobal.com/survey/documents/SAM_MSA_methodology_guidebook.pdf. Reference provides SAM controversy scoring methodology.

¹⁸⁴ Refinitiv, *Environmental, Social and Governance (ESG) Scores from Refinitiv*, April 2020, page 14, https://www.refinitiv.com/content/dam/marketing/en_us/documents/methodology/esg-scores-methodology.pdf. Reference provides Refinitiv controversy scoring methodology.

¹⁸⁵ SAM S&P Global, *MSA Methodology Guidebook 2020*, 2020, https://portal.csa.spglobal.com/survey/documents/SAM_MSA_methodology_guidebook.pdf. Reference provides SAM controversy scoring methodology.

Table 23: Self-Reported Data Sources and Data Validation

Provider and Product	Data Sources				Data Validation or Company Engagement
	Data Directly from the Company Covered		Unstructured Company Data	Third-Party Data	
	Public Corporate Disclosures	Questionnaire			
CDP Climate Score	Not utilized	Questionnaire	Not utilized	RepRisk	No information found
S&P SAM Corporate Sustainability Assessment	Not utilized	Corporate Sustainability Assessment (CSA)	Not utilized	RepRisk; CDP; EcoVadis	No information found
Sustainalytics Risk Rating	Corporate publications and regulatory filings (e.g. Annual Reports and Corporate Sustainability Reports)	Not utilized	News and other media; nongovernmental organization (NGO) reports/websites	Multisector information sources (e.g. Global Reporting Initiative, CDP reports)	Company feedback
ISS-ESG Corporate Rating	Publicly available company information	Not utilized	Data from external information sources is also incorporated, including NGOs, media, academic institutions and governmental authorities	Not utilized	Additional information provided by the company during the formal feedback process
ISS Quality Score	Company publications, including mainstream filings, Sustainability and CSR reports, Integrated Reports, publicly available company policies and information on company websites	Not utilized	Not utilized	Not utilized	Companies within the ISS QualityScore coverage universe are invited to review, verify and provide feedback on the data
Bloomberg ESG Disclosure	Company-sourced filings such as Corporate Social Responsibility reports, annual reports, company websites	Not utilized	Not utilized	Sustainalytics; ISS; CDP; SAM/DJSI	No information found
MSCI ESG Rating	Company disclosure (10-K, sustainability report, proxy report, AGM results, etc.)	Not utilized	Macro data at segment or geographic level from academic, government, NGO datasets; Government databases, 1 600+ media, NGO, other stakeholder sources regarding specific companies	Not utilized	Companies are invited to participate in a formal data verification process prior to publication of their ESG Ratings report.
Vigeo Eiris (VE) ESG Rating	Pre-analysis based on public information	Not utilized	Press Archives (33 000 sources)	Databases: CDP, World Chemical Directory, Janes	Dialogue with companies; VE Connect interactive platform
FTSE Russell ESG Ratings	Public sources	Not utilized	Governments and NGOs	Sustainalytics; RepRisk; CDP; GeoPhy; Refinitiv	No information found
Refinitiv ESG Rating	Reported data in the public domain	Not utilized	NGO reports, news articles	Data contributed by firms then audited and standardized (Thomas Reuters, ISS)	Uses algorithmic and human processes for data checking but does not engage with companies.
RepRisk Index	Not utilized	Not utilized	Media, stakeholders and other public sources external to a company	Not utilized	No information found

For the group of providers which passively obtain data and management practices from company public disclosure, most (Sustainalytics, ISS, MSCI and Vigeo Eiris) actively request company feedback or data validation to provide an additional layer of accuracy to their information (see far right column in table above). This tends to be an annual cycle, although Vigeo Eiris and ISS-ESG have indicated that this may only occur every 2-3 years formally. Others (Bloomberg and FTSE Russell) provide opportunities for companies to respond and update information, but do not reach out specifically with these requests. Refinitiv does not indicate that companies can validate their information.

Specific language around company validation from publicly available provider methodology and approach documents include the following:

ISS QualityScore: 'Companies within the ISS QualityScore coverage universe are invited to review, verify and provide feedback on the data used to determine their scores via a complementary Data Verification tool accessed through ISS Corporate Solutions' (ICS) Governance Analytics platform. Submissions of corrected or updated data factors can be made online through the platform. Online QualityScore profiles are updated once daily, at approximately 0500 Eastern.'¹⁸⁶ Essentially, companies can provide their feedback at any time.

ISS-ESG: 'While ISS-ESG continuously updates company ratings to include relevant, newly released, publicly available information (both by the company and external sources), a structured dialogue and feedback process only takes place around once every two to three years. Nonetheless, companies are welcome to send information/updates regarding sustainability issues for consideration at any time.'¹⁸⁷

MSCI: 'Companies are invited to participate in a formal data verification process prior to publication of their ESG Ratings report. At that time, companies have the opportunity to review and comment on the facts contained in their existing MSCI ESG Ratings report, as well as to provide MSCI ESG Research any additional ESG information if they wish. This process is also in accordance with the objective of frequently updating company reports with the latest available information as provided by companies. Companies may request to see their reports and/or to provide updates or corrections at any time.'¹⁸⁸

Refinitiv: 'Data quality is a key part of the collection process; that is why we use a combination of both algorithmic and human processes to make sure we achieve as close to 100% data quality as possible.'¹⁸⁹

ISS QualityScore, Vigeo Eiris and MSCI have tried to ease and expedite this process by leveraging online data portals for reviewing and submitting information. Company perspectives on engagement and validation of data is discussed further in Part V of this report.

¹⁸⁶ ISS Governance, *Environmental & Social Disclosure QualityScore FAQ*, 2018, page 5, <https://www.issgovernance.com/file/faq/Environmental-Social-QualityScore-FAQ.pdf>.

¹⁸⁷ ISS Governance, *ESG Corporate Rating: Rating Process Manual for Rated Entities*, September 2019, page 3, <https://www.issgovernance.com/esg/ratings/corporate-rating/>.

¹⁸⁸ MSCI, 'MSCI ESG Ratings Methodology' (Research paper, MSCI, September 2019), page 12, <https://www.msci.com/documents/1296102/14524248/MSCI+ESG+Ratings+Methodology+-+Exec+Summary+2019.pdf/2dfcaeee-2c70-d10b-69c8-3058b14109e3?t=1571404887226>.

¹⁸⁹ Refinitiv, *Environmental, Social, and Governance (ESG) Scores from Refinitiv*, April 2020, page 4, https://www.refinitiv.com/content/dam/marketing/en_us/documents/methodology/esg-scores-methodology.pdf.

Step 3: Final Scoring and Evaluation Methodologies

Once issue-relevant data and indicators have been collected, that information is then analysed by the rating agencies' analysts and/or fed into computer-driven models or algorithms to come up with final ratings/scores. While most ESG rating methodologies originated as primarily analyst-based approaches, where the scoring and review is conducted by human researchers, providers are increasingly incorporating AI and computer-based models to efficiently interpret large amounts of data.¹⁹⁰¹⁹¹¹⁹²

Two of the eleven rating provider methodologies analysed focus primarily on evaluating the level of company ESG data disclosure, whereas most of the remaining providers focus on ESG performance. The Bloomberg ESG Disclosure rating and ISS QualityScore evaluate disclosure, based on a large universe of hundreds of metrics that look at how well a company discloses sustainability-related data and information (e.g. 'does the company disclose the presence of an Environmental Management System'). RepRisk is also different in that its ratings are based on daily screenings of over 80 000 sources and are intended to communicate a company's risk/controversy exposure to reputational, compliance and financial risks.

The remaining providers focus on evaluating performance by analysing trends in data year-over-year and reviewing specific aspects of management practices. As shown in Table 24 below, most providers use a hierarchal scoring methodology from the bottom-up.

Table 24: Sustainability-related Rating Provider Scoring Factors

Provider	Scoring Scale	One Overall Score	Separate E/S/G or Pillar Scores	Issue Sub-scores	Scores Based on Mgmt. and Performance Analysis	Scores Based Solely on Disclosure	Scoring Includes Controversy Component
Disclosure Rating							
ISS Quality Score	1-10						
Bloomberg	0-100						
Risk/Controversy Exposure Rating							
RepRisk	0-100, plus a letter rating (AAA-D)						
Performance Rating							
Sustainalytics	Quant. Score + risk category						
CDP	Letter score (A-D)						
ISS-ESG	Letter score (A-D)						
SAM	0-100 score and percentile						

¹⁹⁰ Ted Knutson. 'AI Is Mining ESG Data Companies Aren't Disclosing, Says BlackRock Exec.' Forbes. 18 June 2020. <https://www.forbes.com/sites/tedknutson/2020/06/18/ai-mining-esg-data-companies-not-disclosing-says-blackrock-exec/?sh=19fba1b87d97>

¹⁹¹ Dewi John. 'Artificial Intelligence: Solving the riddle with AI.' IPE. November 2019. <https://www.ipe.com/artificial-intelligence-solving-the-riddle-with-ai/10034250.article>

¹⁹² 'How can AI help ESG investing?' S&P Global. 25 February 2020. <https://www.spglobal.com/en/research-insights/articles/how-can-ai-help-esg-investing>

Provider	Scoring Scale	One Overall Score	Separate E/S/G or Pillar Scores	Issue Sub-scores	Scores Based on Mgmt. and Performance Analysis	Scores Based Solely on Disclosure	Scoring Includes Controversy Component
MSCI	Letter score (AAA-CCC)						
Vigeo Eiris	0-100						
FTSE Russell	1-5						
Refinitiv	Percentile rank scores (% and letter grades D- to A+)						

Although most providers use hierarchal scoring, each methodology is proprietary and includes subtle differences. For example, for its Risk Ratings, Sustainalytics leverages a three-tiered scoring system to provide a quantitative score (representing units of unmanaged ESG risk) and risk category based on exposure and ability to manage the risk, as shown in Figure 15 below. Similarly, MSCI sets key issue weights and begins its scoring with issue-level scores based on management and exposure, ultimately feeding up into pillar scores, a weighted score, and industry-adjusted score before landing on the final rating. See Figure 16 below.

CDP uses 'levels' of scoring for each question in its assessment based on the nature of the question, as follows:

- A: Leadership
- B: Management
- C: Awareness
- D: Disclosure.

ISS-ESG dives even deeper, where 'all indicators are individually assessed based on clearly defined absolute performance expectations. Based on individual scores and weightings at the indicator level, results are aggregated to yield data on the topic level as well as an overall score (rating).'¹⁹³

¹⁹³ ISS Governance, *ESG Corporate Rating: Rating Process Manual for Rated Entities*, September 2019, page 5, <https://www.issgovernance.com/esg/ratings/corporate-rating/>.

Calculating the ESG Risk Ratings

Unmanaged Risk

Unmanaged Risks at the issue and the overall level

The final ESG Risk Ratings scores are a measure of unmanaged risk, which is defined as material ESG risk that has not been managed by a company. It includes two types of risk: unmanageable risk, which cannot be addressed by company initiatives, as well as the management gap. The management gap represents risks that could potentially be managed by a company but aren't sufficiently managed according to our assessment.

Scoring occurs in three steps

The ESG Risk Ratings scoring system for a company is best thought of as occurring in three stages (from top to bottom, see Exhibit 5). The starting point is determining exposure. The next stage is assessing management and the degree to which risk is managed, and the final stage is calculating unmanaged risk. This structure applies to individual material ESG issues as well as the company's overall ESG Risk Ratings.

Exhibit 5: ESG Risk Ratings – the scoring structure

Exposure			
Manageable Risk			
Managed Risk			
Management Gap			
Unmanaged Risk			

Company Exposure	=	Subindustry Exposure	*	Issue Beta	
	=	8	*	1.5	= 12
Manageable Risk	=	Company Exposure	*	MRF	
	=	12	*	90%	= 10.8
Managed Risk	=	Manageable Risk	*	Management score (as %)	
	=	10.8	*	75%	= 8.1
Unmanaged Risk	=	Company Exposure	-	Managed Risk	
	=	12	-	8.1	= 3.9

Source: Sustainalytics

Figure 15: Sustainalytics Risk Rating¹⁹⁴

¹⁹⁴ Sustainalytics, *ESG Risk Ratings Methodology – Abstract Version 2.0*, November 2019, page 11, <https://www.sustainalytics.com/esg-risk/>.

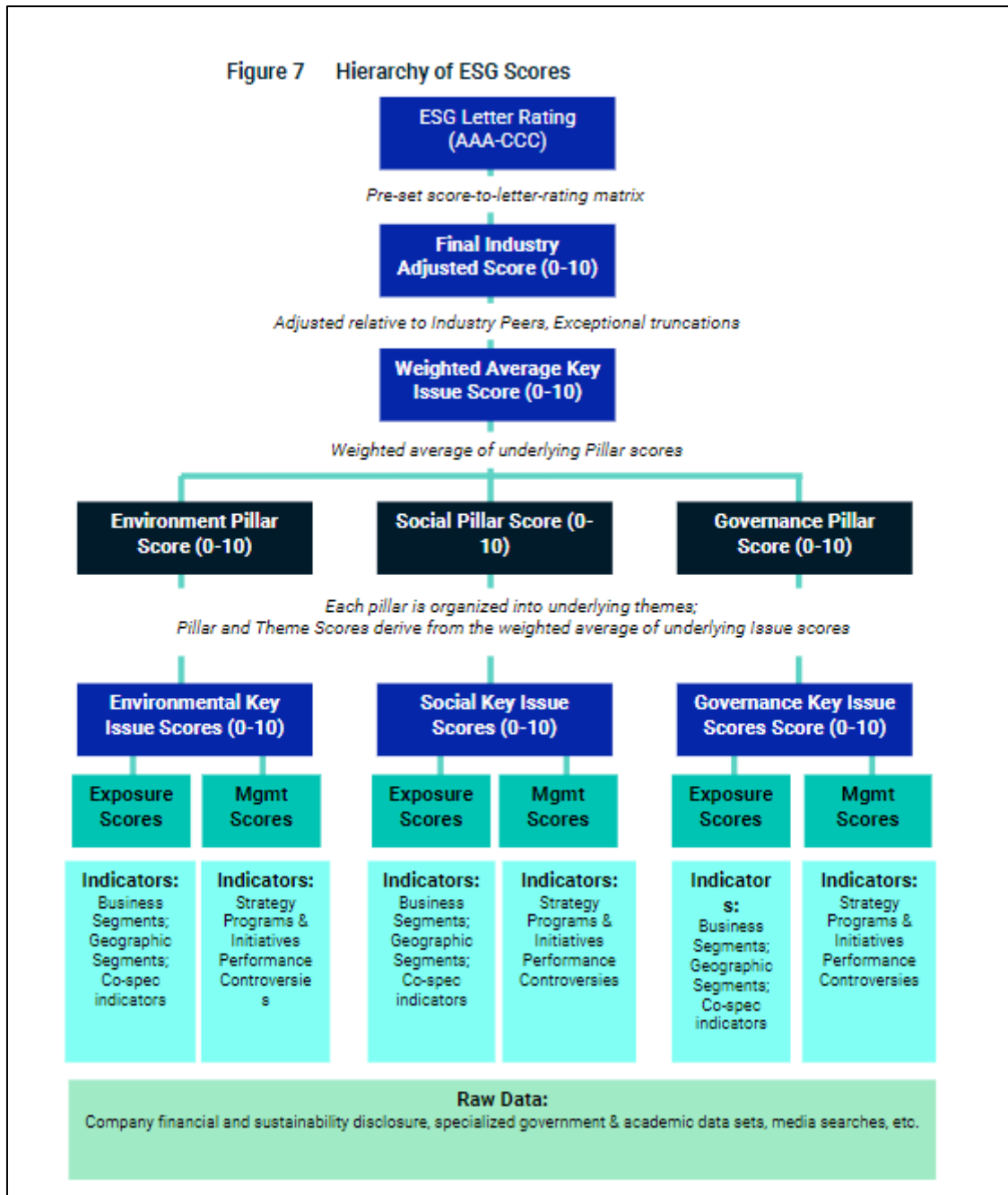


Figure 16: MSCI Scoring Hierarchy¹⁹⁵

Regulatory References

No sustainability-related ratings provider explicitly noted that they apply a specific regulation, such as the EU taxonomy or NFRD, in their methodology. MSCI does note that it is “developing a new screening factor that combines each of the core data elements of our standard approach to analysing Taxonomy alignment into the

¹⁹⁵ MSCI, ‘MSCI ESG Ratings Methodology’ (Research paper, MSCI, September 2019), page 2, <https://www.msci.com/documents/1296102/14524248/MSCI+ESG+Ratings+Methodology+-+Exec+Summary+2019.pdf/2dfcaeee-2c70-d10b-69c8-3058b14109e3?t=1571404887226>.

methodology for an Estimated EU Taxonomy Alignment screening factor.”¹⁹⁶ While Sustainalytics indicates that it has an internal “working group that is assessing the impact of the European regulatory initiatives on its clients and products.”¹⁹⁷ In June 2020, Refinitiv published an article on how users can incorporate their products as useful tools for evaluating investor portfolios against the EU taxonomy.¹⁹⁸ Multiple other providers acknowledged the significance of the EU taxonomy, with either a fact sheet (Bloomberg¹⁹⁹), a webinar (ISS²⁰⁰), an FAQ (Sustainalytics), or second-party opinion-related services (Vigeo Eiris), without specifically indicating how it would impact rating methodologies.

4.3. Methodology and Scoring Updates

Most rating providers offer limited detailed information on methodology updates, except for those that utilize surveys (CDP and SAM CSA). Those two providers publish specific updates to methodology as well as annual ratings. As shown in Table 25 below, the nine remaining ratings providers typically update ratings annually, but the frequency in which they undertake methodology updates varies from potentially daily to “periodically.” ISS QualityScore indicates that they do more frequent reviews of indicators to ensure they reflect the surrounding climate.

There is more variation in the frequency of updates to company ratings. A number of providers update company ratings annually, particularly those that issue annual questionnaires (for example, SAM CSA and CDP), as well as MSCI and Sustainalytics. Other providers update more frequently, typically on an as-needed basis when new information would change the ratings. A few providers refresh their platforms daily or weekly to reflect any new information that may have come through.

Table 25: Rating Provider Methodology and Company Rating Update Frequency

Provider	Frequency of Updates to Methodology	Frequency of Updates to Ratings
Sustainalytics ²⁰¹	Annually – We review subindustry-specific exposure assessments on an annual basis. Those assessments validate the selection of material ESG issues for each subindustry along with management indicators.	Annually – For each company, we run through a comprehensive research process and complete a full update of the company’s rating and report.
CDP	Annually	Annually – After each survey cycle.

¹⁹⁶ ‘EU Sustainable Finance Action Plan,’ MSCI, <https://www.msci.com/esg/sustainable-finance/eu-sustainable-finance-package>.

¹⁹⁷ ‘Frequently Asked Questions – European Sustainable Finance Regulations,’ Sustainalytics, <https://www.sustainalytics.com/sustainable-finance/2019/08/20/eu-sustainable-taxonomy-green-bond-standard-faq-blog/>.

¹⁹⁸ Elena Philipova, ‘Which ESG investments are truly sustainable?’, *Investment Insights, Refinitiv*, June 5 2020, <https://www.refinitiv.com/perspectives/future-of-investing-trading/which-esg-investments-are-truly-sustainable/>.

¹⁹⁹ Bloomberg Professional Services, *Prepare Your Firm for European Taxonomy Regulation*, June 2020, <https://data.bloomberglp.com/professional/sites/10/Watch-EU-Taxo-Fact-Sheet.pdf>.

²⁰⁰ ‘The EU Taxonomy in Focus Webinar’, EU Regulation Taxonomy 2020, ISS Governance, <https://www.issgovernance.com/eu-regulation-taxonomy-2020/>.

²⁰¹ ‘Unravel the Dimensions of ESG Risk’, Sustainalytics, https://connect.sustainalytics.com/esg-risk-ratings-methodology?_ga=2.216881878.1394376358.1602804958-1093022999.1601008746.

Provider	Frequency of Updates to Methodology	Frequency of Updates to Ratings
ISS ESG ²⁰²	Continuously - The indicators are constantly reviewed and developed to align with latest scientific findings, technological developments, regulatory changes and the social debate.	Annually – The assessment, based on publicly available company information and external sources, is annually updated. A structured dialogue and feedback process only takes place around once every two to three years.
ISS Quality Score ²⁰³	Continuously – RI Methodology Review Board ensures the methodology remains in step with disclosure standards as they adapt to reflect developments in company practice and stakeholder expectations. Indicators are constantly reviewed and developed to align with latest scientific findings, technological development, regulatory changes and the social debate.	Continuously – Data is updated potentially daily. Companies can provide feedback and updates at any time, and online QualityScore profiles are updated once daily. Aside from company verification, company data is updated annually on a rolling basis, based roughly on the timing for filing annual reports and sustainability reports, issuing updates on company policies and introducing other significant changes to company disclosures.
Bloomberg	Not disclosed	Annually – After companies publish their sustainability reports. Daily updates on company management (e.g. board committees, tenure, structure) and shareholder rights (e.g. shares held by CEO).
SAM	Annually	Annually – After each survey cycle.
MSCI	Annually – Key issues and weights undergo a formal review and feedback process at the end of each calendar year.	Annually – Review of the rating for each company made annually, with interim modifications made if/when major developments occur. Daily monitoring of controversies and governance events may trigger analyst review and re-rating.
Vigeo Eiris	Periodically – The core calculation elements of the methodology have not changed since the start of the product. However, the content of our methodological framework has evolved according to important and relevant changes in regulatory requirements; investors' expectations regarding new challenges or emerging topics; internal choices regarding methodological development (e.g. additions/deletions); and the sectoral analysis carried out prior to the rating.	Annually ²⁰⁴
FTSE Russell	Bi-annually – The ESG data model is overseen by an independent external committee comprising experts from the investment community, business, NGOs, unions and academia. Companies are researched annually and ESG Ratings are updated on a bi-annual basis in June and November.	Quarterly

²⁰² ISS Governance, *ESG Corporate Rating: Rating Process Manual for Rated Entities*, September 2019, page 5, <https://www.issgovernance.com/esg/ratings/corporate-rating/>.

²⁰³ ISS Governance, 'Governance QualityScore: Methodology Guide' (White paper, ISS Governance, October 2020), <https://www.issgovernance.com/file/products/qualityscore-techdoc.pdf>.

²⁰⁴ 'Guide to ESG Data Providers', Services for Sustainability-Linked Financial Instruments (ESG Ratings and Second-Party Opinions), Environmental Finance, <https://www.environmental-finance.com/content/guides/esg-guide-entry.html?planid=2&productid=318&editionid=3>.

Provider	Frequency of Updates to Methodology	Frequency of Updates to Ratings
Refinitiv	Update frequency not disclosed – Last update made in April 2020 following a series of industry roundtables, along with 4 years of market feedback ²⁰⁵	Weekly – Database updated continuously, aligned with company reporting patterns; data is refreshed on products every week, including a recalculation of the ESG scores. In most cases, reported ESG data is updated once a year in line with companies' own ESG disclosure.
RepRisk	Not disclosed	Continuously – research updated daily.

4.4. Transparency of Methodologies

Most large sustainability-related ratings providers publish a communication about their methodology/approach to ratings, which can vary from a high-level summary or introductory document (such as FTSE's ESG Ratings and data model²⁰⁶) to a 20+ page document detailing the breakdown of all of the components that go into a rating (such as Refinitiv's ESG Scores²⁰⁷).

The majority of these publicly available methodology documents cover at least the key sustainability-related issues or topics leveraged and their scoring methodologies (with varying granularity). Fewer providers disclose the underlying indicators that feed into specific topics or the actual weights of the sustainability-related topics or issues based on industry. The table below outlines the key aspects of a rating methodology are disclosed by each provider (in publicly available sources).

Table 26: ESG Rating Provider Methodology Level of Transparency (Public Disclosure)

ESG Rating Provider	Key ESG Issues/ Topics Disclosed	Underlying Indicators Disclosed	Weightings Disclosed	Scoring Methodology Disclosed
Sustainalytics				✓
CDP	✓	✓	✓	✓
ISS ESG	✓			
ISS Quality Score	✓	✓		✓
Bloomberg				
SAM	✓	✓	✓	
MSCI	✓			✓
Vigeo Eiris	✓			✓
FTSE Russell	✓			
Refinitiv	✓		✓	✓

²⁰⁵ Lemuel Brewster, 'Refinitiv Enhances ESG Scoring Methodology to Reflect Sustainable Industry Developments and Market Changes', Refinitiv, 15 April 2020, <https://www.refinitiv.com/en/media-center/press-releases/2020/april/refinitiv-enhances-esg-scoring-methodology-to-reflect-sustainable-industry-developments-and-market-changes>.

²⁰⁶ FTSE Russell, *ESG Ratings and Data Model Product Overview: Integrating ESG into Investments*, https://research.ftserussell.com/products/downloads/ESG-ratings-overview.pdf?_ga=2.172348323.1692095922.1602514556-1007353494.1600376445.

²⁰⁷ Refinitiv, *Environmental, Social and Governance (ESG) Scores from Refinitiv*, April 2020, https://www.refinitiv.com/content/dam/marketing/en_us/documents/methodology/esg-scores-methodology.pdf.

ESG Rating Provider	Key ESG Issues/ Topics Disclosed	Underlying Indicators Disclosed	Weightings Disclosed	Scoring Methodology Disclosed
RepRisk				

It should be noted that most of these providers provide different or additional granularity on the methodology to 1) companies and 2) clients/subscribers (e.g. investors and asset managers), and may provide additional transparency for an additional cost. For example, ISS, MSCI and Vigeo Eiris maintain company portals to engage companies, receive updates and provide company reports and methodologies (in more detail than what is publicly disclosed). This enables companies to review the underlying indicators they are assessed on. In addition, during interviews conducted for this study, many providers stated that they will provide additional information to clients (subscribers) and may provide additional information to companies who pay for access to different databases. This additional information provided to companies could come in the form of benchmarking tools to improve performance and/or specific paid services to understand how to improve ratings. For example, SAM sells leading practice and other benchmarking services to help companies improve performance on the CSA.

4.4.1. Accessing Ratings

As shown in Table 27 below, Sustainalytics, CDP, and MSCI are the only providers that make their ESG ratings publicly available. Sustainalytics and MSCI only recently began publicly disclosing their databases of company ratings via their websites in 2020, but only the high level rating is made available, not the full rating report. All other providers have established paywalls, either through their own self-developed platform and/or via a paid Bloomberg subscription, which limit ratings access to subscribers. Although users have to pay to access full ratings, many rating providers will offer a company with its specific company score/rating and accompanying report for free (including Sustainalytics, ISS, SAM, MSCI and Vigeo).

Table 27: Public Accessibility

Provider	Rating/Percentile Access
Sustainalytics ESG Risk Rating	Quantitative risk rating publicly available ; ESG pillar scores and controversy levels available on Yahoo! Finance (under “Sustainability” for a specific company)
CDP Climate Change	Letter scores available at cdp.net
ISS-ESG Corporate Rating	Not publicly available
ISS QualityScore	Governance QualityScore available via Bloomberg; E&S not publicly available
Bloomberg ESG Disclosure	Scores only available via Bloomberg
SAM CSA	Percentiles available via Bloomberg; Scores not publicly available
MSCI ESG Rating	Letter scores publicly available
Vigeo Eiris ESG Rating	Not publicly available
FTSE Russell ESG Rating	Not publicly available
Refinitiv ESG Scores	Not publicly available
RepRisk Index	Not publicly available

4.5. Bias

In the survey conducted for this study, market participants were asked in what respects bias might arise in the methodologies used to produce sustainability-related ratings. These have been categorized under company size bias, geographic bias, industry sector bias, engagement bias and language bias. These categories broadly align with a recent study by the American Council for Capital Formation exploring sustainability-related ratings biases. There are three main biases observed in the selection of companies covered.²⁰⁸

Company Size Bias: larger companies obtain higher sustainability-related ratings because of the ability to dedicate more resources to non-financial disclosures;

Geographical Bias: companies in regions with high reporting requirements obtain higher sustainability-related ratings compared to companies with less regulatory pressure;

Industry Bias: rating providers oversimplify industry weighting and company alignment. Providers claim to normalise ratings by industry. However, providers often assign sustainability-related weights to companies without factoring in company-specific risks related to business model or business relationships.

Sustainability-related ratings providers themselves acknowledge that potential, perceived and actual areas of bias can occur in rating methodologies. For example, it is acknowledged by leading sustainability-related rating providers in the study survey and in public disclosures that company size bias is present.²⁰⁹ It is also noted by sustainability-related rating providers that to a large extent these bias can be, and are already successfully, mitigated and eliminated by consistent, thoughtful and sufficiently differentiated methodologies.²¹⁰

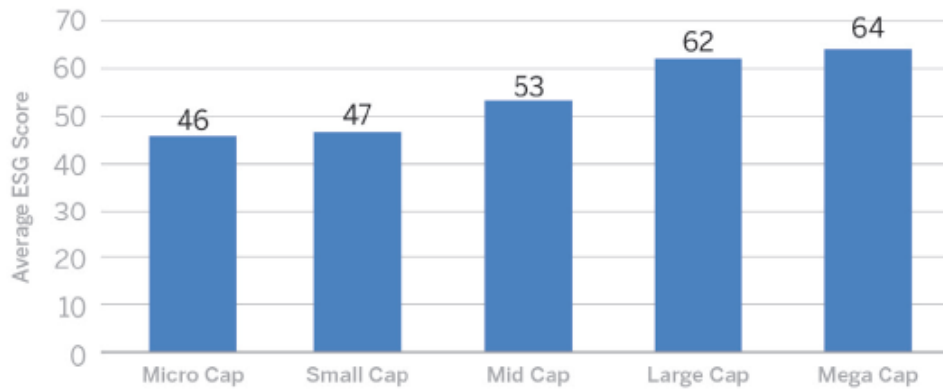
4.5.1. Company Size Bias

Large companies tend to score higher in the ESG ratings than mid-sized and small businesses. An analysis of 4,000 Sustainalytics ESG ratings in 2018 showed, for example, that companies with a higher market capitalization score better on ratings than lower market-cap peers as illustrated in Figure 17 below.

²⁰⁸ Timothy M. Doyle, *Ratings that Don't Rate: The Subjective World of ESG Ratings Agencies*, American Council for Capital Formation (ACCF), July 2018, https://accfcorp.gov.org/wp-content/uploads/2018/07/ACCF_RatingsESGReport.pdf.

²⁰⁹ Guido Gese, Linda-Eling Lee, Dimitris Melas, Zoltan Nagy and Laura Nishikawa, 'Foundations of ESG Investing: How ESG Affects Equity Valuation, Risk, and Performance', *The Journal of Portfolio Management* Volume 45, Number 5 (July 2019), available on MSCI's webpage <https://www.msci.com/documents/10199/03d6faef-2394-44e9-a119-4ca130909226>. Reference states, 'Companies with higher valuations might be in better financial shape and therefore able to invest more in measures that improve their ESG profile; such investments might lead to higher ESG scores'.

²¹⁰ Project team interviews and survey responses, 2020.



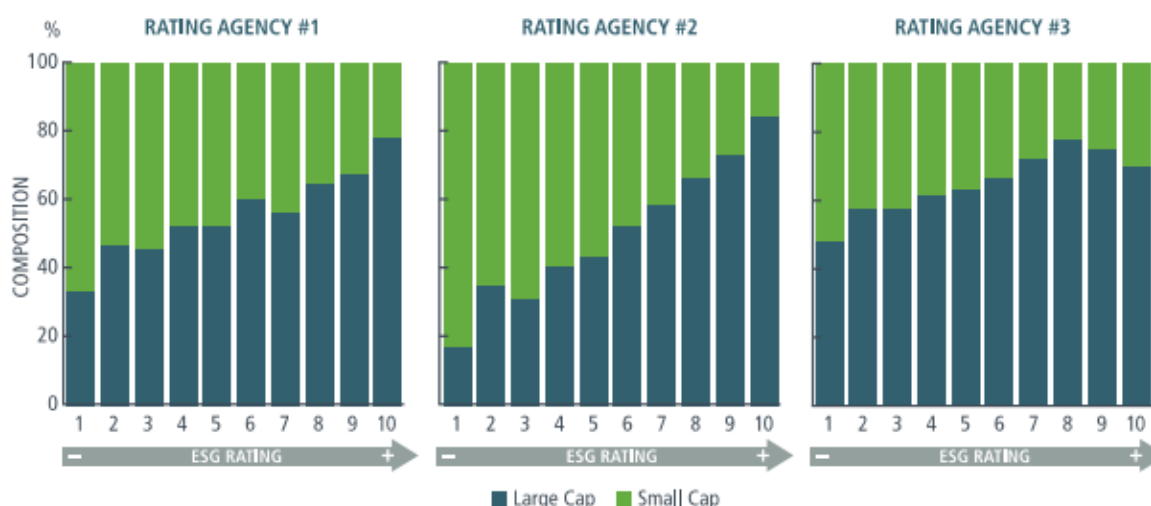
Source: Timothy M. Doyle, 2018²¹¹

Figure 17: Average Sustainability-Related Rating by Market Cap

A paper by LaBella, Sullivan, Russell and Novikov²¹² published in September 2019 also highlighted that **company size bias that exists across leading sustainability-related rating agencies** (see Figure 18 below). This paper notes that the result of this bias is that a simple portfolio built from companies with the highest sustainability-related rating will typically contain a higher proportion of large cap companies than the benchmark.

²¹¹ Ibid.

²¹² Michael J. LaBella, CFA, Lily Sullivan, Josh Russell, PhD and Dmitry Novikov, PhD., 'The Devil is in the Details: The Divergence in ESG Data and Implications for Sustainable Investing', (Research paper, QS Investors September 2019), https://qsinvestorsproduction.blob.core.windows.net/media/Default/PDF/The%20Devil%20is%20in%20the%20Details_Divergence%20in%20ESG%20Data.pdf.



Source: LaBella, Sullivan, Russell and Novikov²¹³

Figure 18: Large Cap Bias Embedded within Sustainability-Related Ratings

It is contended by both Doyle and LaBella, Sullivan, Russell and Novikov that **company size bias is mainly based on larger companies having the resources to prepare and disclose more sustainability-related information than smaller companies. They often have in-house sustainability teams and have the financial resources to hire specialized consultants to support them develop targeted sustainability-related disclosures.** It is further argued that this has led to a consistent skew favouring large companies, and that company size bias distorts the correct evaluation by sustainability-related rating providers of companies' risks and opportunities by rewarding larger companies that have the ability to disclose more relevant sustainability-related information.

This is further corroborated by a 2019 study entitled *The Influence of Firm Size on the ESG Score: Corporate Sustainability Ratings Under Review*,²¹⁴ which raises the concern that the way the sustainability-related rating providers measure company sustainability gives an advantage to larger companies with more resources, while not providing investors with adequate information needed to make decisions based on sustainability-related factors. Further, German asset manager Berenberg²¹⁵ compared the coverage of the three biggest sustainability-related rating providers to examine data gaps in 2020, which included a survey of companies, and found that sustainability-related ratings are

²¹³ Ibid. The data is sourced from: MSCI, Refinitiv, Sustainalytics and QS Investor. Universe is ACWI IMI. Data is average for December 2012-2018 period. Global universe is ranked by ESG and divided into deciles, where decile 10 is comprised of the stocks with highest ESG rating. Rating Agency 1 represents MSCI ESG ratings; Rating Agency 2 represents Thomson Reuters ESG ratings; Rating Agency 3 represents Sustainalytics ESG ratings.

²¹⁴ Samuel Dremptic, Christian Klein and Bernhard Zwergel, 'The Influence of Firm Size on the ESG Score: Corporate Sustainability Ratings Under Review', *Journal of Business Ethics*, (2020): pages 333-360. 10.1007/s10551-019-04164-1.

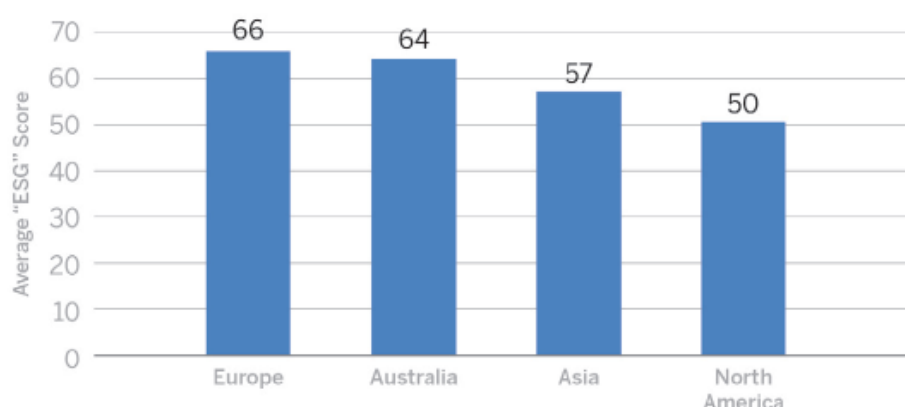
²¹⁵ Matthias Born, Katharina Raatz, Dr Rupini Deepa Rajagopalan and Justus Schirmacher, 'ESG Ratings: The Small and Mid-cap Conundrum', Research paper, Berenberg, May 2020), https://www.berenberg.de/files/Presse/Presse-Informationen/2020/Small%20Cap%20Bias_White%20Paper.pdf.

inherently skewed towards large and more mature companies, while small and rapidly growing companies on average have lower sustainability-related ratings.

In the survey conducted for this study, the response of sustainability-related rating providers to this concern varies depending on the methodology adopted. One sustainability-related rating provider reported that they place a comparatively high-weighting emphasis on the rated companies' products and services impacts on the Sustainable Development Goals, and that this does not disadvantage smaller companies. Rating providers also reported applying specific and differentiated rules in the assessment of medium (fewer than 500 employees), small (fewer than 100 employees) and very small companies taking into account the disproportionate resource burden the implementation of formal management systems would put on these smaller companies. Additionally, it was noted by some rating providers that the use of information from non-company sources had increased (alternative data) and that is both not prone to disclosure bias and, in the case of alternative data, such as controversies, are commonly more prevalent with larger companies.

4.5.2. Geographic Bias

On average, European-based companies receive higher sustainability-related ratings than companies headquartered in other parts of the world. Figure 19 below illustrates this observation using a study of 4 150 Sustainalytics sustainability-related ratings by geography.



Source: Timothy M. Doyle, 2018²¹⁶

Figure 19: Sustainalytics Sustainability-Related Ratings by Geography

This tendency might be explained twofold. On the one hand, regulatory reporting requirements vary widely by region and jurisdiction. Companies headquartered in Europe have, in many cases, higher requirements for disclosing sustainability-related factors than their peers in other parts of the world, e.g. due to European Directives, such as the NFRD or national regulations. On the other hand, sustainability-related disclosures might

²¹⁶ Timothy M. Doyle, *Ratings That Don't Rate: The Subjective World of ESG Ratings Agencies*, ACCF, July 2018, https://accfcorp.gov.org/wp-content/uploads/2018/07/ACCF_RatingsESGReport.pdf.

be more relevant for European-based countries as European fund and asset managers view sustainability-related factors as more important when making an investment consideration as their colleagues based outside of Europe.

The geographic bias leads to a lack of investor's capacity to understand the real sustainability risks and opportunities of a company.

Various studies point to the fact that two companies active in the same industry, with similar business models, are often assigned different ratings based on where they are headquartered. For example, sustainability-related ratings are often more favourable in civil law countries than in common law countries, and on average, companies with a Scandinavian legal origin have the most favourable sustainability-related rating.²¹⁷ **On a more general level, companies domiciled in Europe, often receive much higher ESG rating scores than peers based in the United States and elsewhere.**²¹⁸ In Europe, the EU requires companies with 500 employees or more to publish a "non-financial statement," as well as additional disclosures around diversity policy.²¹⁹ There are no such requirements currently for companies in North America, which is one reason for the positive bias toward European companies. In addition to disclosure requirements, investors in Europe are more convinced of the materiality of sustainability-related investing – a study by Schroders in 2016 found that 58% of European fund managers view sustainability as an important investment consideration while only 14% of US managers said the same.²²⁰

The issue of geographical bias was acknowledged by company representative respondents to the survey conducted for this study. For example, some criteria measured differ in definition across different geographies (e.g. 'ethnic minorities'), and it is therefore not possible to provide meaningful data at a consolidated level. Additionally, corporate governance questions may be framed around a different country's corporate governance code than the country in which the company being assessed is based. For example, certain governance rules applicable to French companies are not considered sufficient, which puts them at a disadvantage. The Afep-Medef Code²²¹ accepts the 12-year rule for determining the threshold beyond which a director is no longer considered as independent. But some rating providers systematically refer to the stricter Anglo-American standard of nine years and attribute poor scores to French companies despite the fact that they are compliant with the Afep-Medef Code. In addition, the French law requires the appointment of directors representing employees, who are inherently not considered to be independent. This specificity is not always taken into account when it

²¹⁷ Hao Liang and Luc Renneboog, 'On the Foundations of Corporate Social Responsibility', *Journal of Finance*, Volume 72, Number 2 (2017): pages 853-910, available at the Research Collection Lee Kong Chian School Of Business, https://ink.library.smu.edu.sg/lkcsb_research/5014.

²¹⁸ Timothy M. Doyle, *Ratings That Don't Rate: The Subjective World of ESG Ratings Agencies*, July 2018, https://accfcorp.gov/wp-content/uploads/2018/07/ACCF_RatingsESGReport.pdf.

²¹⁹ Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (OJ L 330, 15.11.2014, p. 1–9), <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095>; and 'Non-financial Reporting,' Business, Economy, Euro: Company reporting and auditing: Company reporting, https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en. Reporting Directive 2014/95/EU on disclosure of non-financial and diversity information.

²²⁰ Schroders, *Global Investor Study 2016 – Plan Sponsors*, 2016, <http://www.schroders.com/en/sysglobalassets/digital/insights/2016/pdfs/global-investors-study-pension-funds.pdf>.

²²¹ Afep, *The AFEP-MEDEF Code 2018*, June 2018, <https://afep.com/en/publications-en/le-code-afep-medef-revise-de-2018/>.

comes to calculating the proportion of independent directors. Likewise the supervisory board structure of a German 'Aktiengesellschaft' leads to a poor rating because of its size and composition compared to other international Board of Director structures. These are legal requirements specific to a country that in effect penalises the sustainability-related rating of companies under the jurisdiction that comply with them.

4.5.3. Industry Sector Bias

The great majority of sustainability-related ratings normalize ratings by industry to account for materiality changes by industry. **This can result in a biased rating for a company based on their industry, as opposed to company-specific risk that the sustainability-related ratings should account for, as it is oversimplified to assume that companies in the same industry face exactly the same risk.** In reality each company has a different risk profile depending on their business model.

Company representative respondents to the survey undertaken as part of this study provided numerous examples of where industry sector bias in sustainability-related ratings was perceived. This included:

- a bias against companies in sectors with higher carbon dioxide emissions – it was reported that some sustainability-related rating methodologies are weighted so that a company will perform better if it is in a sector that is easier to reduce carbon emissions, and disadvantage energy-intensive companies with relatively high process emissions;
- a bias against the extractive sector – this was directly referenced by three respondents, in that sustainability-related rating providers tend to show an inherent dislike for this sector in particular;
- a bias against companies that do not neatly fit into an industry sector categorisation – this includes conglomerates and companies that operate across industry sectors, or in sectors where there is not clear industry sector denomination, who report that many questions and KPIs are not appropriate to their business and that industry sector comparisons are not relevant.

This can lead to an industry bias, in which companies might be falsely under-weighted or over-weighted as sustainability-related rating providers try to normalize industry specific ratings or worse yet, investors evaluating companies and attempting to apply these 'normalized' ratings 'might miscalculate the bias that is implicit in the ratings whole industry'.²²²

4.5.4. Company Engagement Bias

The company engagement bias might occur if ESG rating providers connect with companies during the ratings process to facilitate data verification. Elyse Douglas²²³ discusses this problem and states that 'especially for rating providers that offer advisory or consultative services to the company, they rate, a bias might be observed'. To avoid such a bias, some data providers never communicate with companies directly that they are evaluating and only use public sources of information

²²² Timothy M. Doyle, *Ratings That Don't Rate: The Subjective World of ESG Ratings Agencies*, July 2018, https://accfcorp.gov/wp-content/uploads/2018/07/ACCF_RatingsESGReport.pdf.

²²³ Elyse Douglas, Tracy Van Holt and Tensie Whelan, 'Responsible Investing Guide to ESG Data Providers and Relevant Trends', *Journal of Environmental Investing* Volume 8, no 1 (2017).

for data gathering. This issue is also explored by Berg, Kölbel and Rigobon²²⁴ who also introduce the concept of 'rater effect', where a sustainability-related rating agency's overall view of a provider influences the assessment of specific categories – such that when a sustainability-related rating agency gives a company a good rating in one category, it tends to give that company good ratings in other categories too.

4.5.5. Language Bias

Another common point of criticism of sustainability-related ratings noted by respondents to the study survey is that they unduly favour companies reporting in English language over companies that only report in local languages. This only is the case when the assessment process excludes reporting, sources and data provided in local languages. The majority of the large sustainability-related rating providers report that they now run a rating process that ensures that documents in local languages are included in the data collection and assessment process. Examples include MSCI, Sustainalytics and RepRisk.

4.6. Ratings Correlation

Research by State Street Global Advisors in November 2019²²⁵ compared data correlation across four major sustainability-related ratings providers: Sustainalytics, MSCI, RobecoSAM (S&P Global) and Bloomberg. Unlike the nearly perfect 0.99 correlation of credit ratings between Moody's and Standard and Poor's, **the correlation across the four major sustainability-related ratings providers was as low as 0.48**. For example, State Street determined that MSCI and Sustainalytics, two of the most widely used sustainability-related ratings providers, had a correlation of only 0.53 among their ratings, meaning that their ratings of companies are only consistent for about half of the coverage universe.

A study by the MIT Sloan School of Management in August 2019 and updated in May 2020 entitled *Aggregate Confusion: The Divergence of ESG Ratings*²²⁶ also showed that findings from different providers of sustainability-related data and ratings are difficult to compare. This reported that the correlations between the sustainability-related ratings from six different providers (KLD (now MSCI KLD), Sustainalytics, Vigeo Eiris, RobecoSAM (now S&P Global), Asset4 (now Refinitiv) and MSCI) across 823 companies were on average 0.54 with a range of 0.38 to 0.71 (see summary Table 28 below). The mean average correlation for European companies (274 included in the study) was 0.49.

This is collaborated by further research published by the European Corporate Governance Institute in March 2020 that shows **the average correlation between the total sustainability-related ratings from six different providers is about 0.46**,

²²⁴ Florian Berg, Julian Koelbel and Roberto Rigobon, 'Aggregate Confusion: The Divergence of ESG Ratings' (White paper, MIT Management Sloan School, 17 May 2020), available at SSRN, <https://ssrn.com/abstract=3438533> or <http://dx.doi.org/10.2139/ssrn.3438533>.

²²⁵ State Street Global Advisors, 'Into the Mainstream ESG at the Tipping Point' (Research paper, State Street Global Advisors, November 2019), <https://www.ssga.com/library-content/pdfs/insights/into-the-mainstream.pdf>.

²²⁶ Florian Berg, Julian F. Koelbel and Roberto Rigobon, 'Aggregate Confusion: The Divergence of ESG Ratings' (White paper, MIT Management Sloan School, 17 May 2020), available at SSRN, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3438533.

and that the average correlation is lowest for governance and highest for environmental ratings.²²⁷

Table 28: Correlations of Sustainability-Related Ratings Agencies' Ratings across a Common Sample of 954 Companies

	KL SA	KL VI	KL RS	KL A4	KL MS	SA VI	SA RS	SA A4	SA MS	VI RS	VI A4	VI MS	RS A4	RS MS	A4 MS	Average
ESG	0.53	0.49	0.44	0.42	0.53	0.71	0.67	0.67	0.46	0.7	0.69	0.42	0.62	0.38	0.38	0.54
E	0.59	0.55	0.54	0.54	0.37	0.68	0.66	0.64	0.37	0.73	0.66	0.35	0.7	0.29	0.23	0.53
S	0.31	0.33	0.21	0.22	0.41	0.58	0.55	0.55	0.27	0.68	0.66	0.28	0.65	0.26	0.27	0.42
G	0.02	0.01	-0.01	-0.05	0.16	0.54	0.51	0.49	0.16	0.76	0.76	0.14	0.79	0.11	0.07	0.30

■ Below 0.1 ■ 0.1 to 0.3 ■ 0.3 to 0.5 ■ 0.5 to 0.7 ■ Above 0.7

Note: Correlations between sustainability-related ratings at the aggregate rating level (ESG) and at the level of the environmental dimension (E), the social dimension (S), and the governance dimension (G). The results are similar using pairwise common samples based on the full sample: Sustainalytics (SA), RobecoSAM – now S&P Global (RS), Vigeo Eiris (VI), Asset4 – now Refinitiv (A4), KLD (KL) and MSCI (MS).

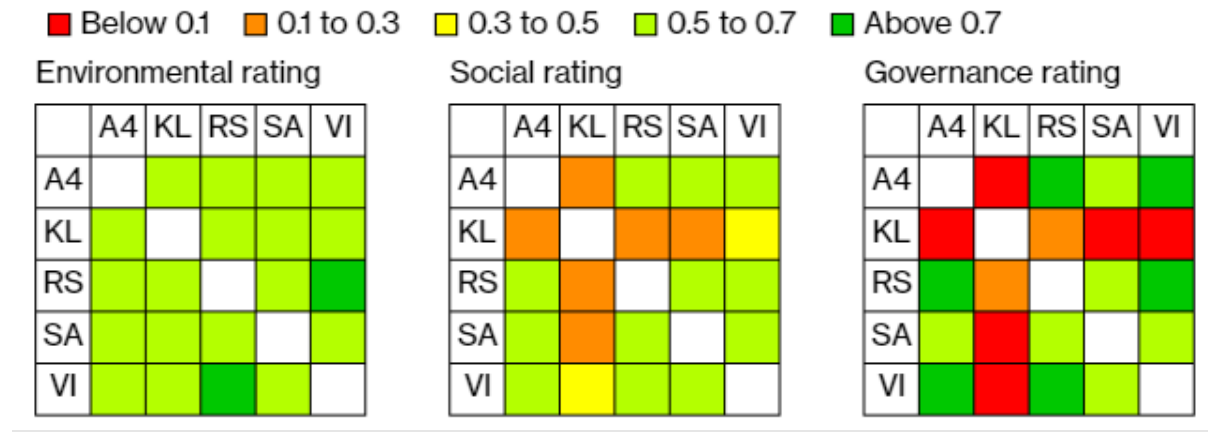
Source: MIT Sloan School of Management

4.6.1. Where Sustainability-Related Ratings Diverge

The MIT Sloan School of Management study²²⁸ evaluated the correlation across 709 indicators covered by the six different sustainability-related ratings and data providers. These were then catalogued into 65 categories. Only 10 of these categories were included by all six sustainability-related rating providers in the study, being Biodiversity, Employee Development, Energy, Green Products, Health and Safety, Labour Practices, Product Safety, Remuneration, Supply Chain and Water. The other categories were selected as they were included by at least two sustainability-related rating providers. This is a clear indication of the scope divergence noted below. As indicated in Table 28 above and Figure 20 below, the correlations of the environmental dimension are slightly lower than the overall aggregated ESG correlations with an average of 0.53, but they are higher than the social dimension average of 0.42, and the governance dimension, which has the lowest correlation with an average of 0.30.

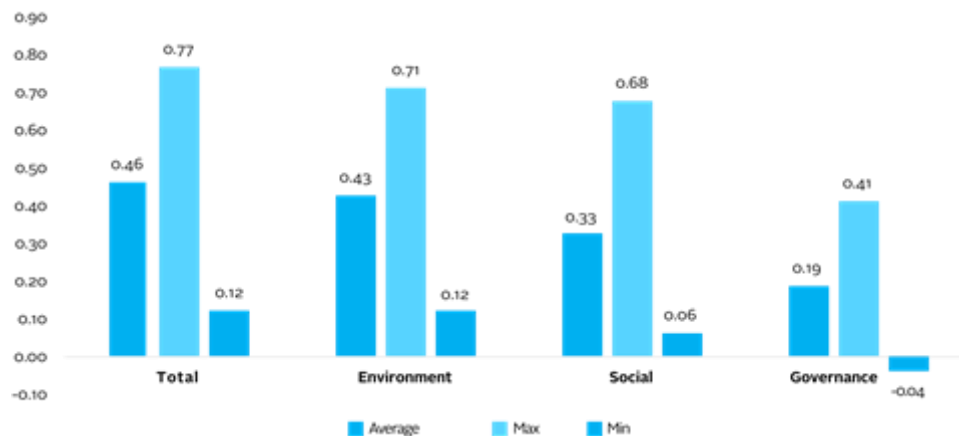
²²⁷ Rajna Gibson, Philipp Krueger and Peter Steffen Schmidt, 'ESG Rating Disagreement and Stock Returns' (Research Paper, Swiss Finance Institute Research Paper No. 19-67; Working paper, European Corporate Governance Institute, 22 December 2019), Updated on 30 June 2020 at SSRN, <https://ssrn.com/abstract=3433728> or <http://dx.doi.org/10.2139/ssrn.3433728>.

²²⁸ Florian Berg, Julian F. Koelbel and Roberto Rigobon, 'Aggregate Confusion: The Divergence of ESG Ratings' (White paper, MIT Management Sloan School, May 2020, page 8), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3438533.



Source: MIT Sloan School of Management and Bloomberg

Figure 20: Correlations of Sustainability-Related Ratings Providers' Ratings across a Common Sample of Companies



Source: European Corporate Governance Institute

Figure 21: Average, Minimum and Maximum Correlations across Providers

This difference in correlation between E, S and G factors is corroborated by the European Corporate Governance Institute,²²⁹ see Figure 21 above, which found the average correlation is highest for environmental ratings (0.46), then social ratings (0.33) and the lowest for governance (0.19). Both papers found that correlation levels are highly varied, and that there was most disagreement around governance factors, and the most agreement for the aggregated overall ESG rating, followed by environmental factors.

Further detailed analysis as to the significance of divergence is provided in the MIT Sloan School of Management study:

²²⁹ Rajna Gibson, Philipp Krueger and Peter Steffen Schmidt, 'ESG Rating Disagreement and Stock Returns' (Research Paper, Swiss Finance Institute Research Paper No. 19-67; Working paper, European Corporate Governance Institute, 22 December 2019), Updated on 30 June 2020 at SSRN, <https://ssrn.com/abstract=3433728> or <http://dx.doi.org/10.2139/ssrn.3433728>.

Environmental Policy, for instance, has an average correlation level of 0.55. This indicates that there is at least some level of agreement regarding the existence and quality of the firms' environmental policy. But even categories that measure straightforward facts that are easily obtained from public records do not all have high levels of correlation. Membership of the UN Global Compact and CEO/Chairperson separation, for instance, show correlations of 0.92 and 0.59, respectively. Health and Safety is correlated at 0.30, Taxes at 0.04. There are also a number of negative correlations, such as Lobbying between Sustainalytics and Vigeo Eiris or Indigenous Rights between Sustainalytics and Asset4. In these cases, the level of disagreement is so severe that rating providers reach not just different, but opposite conclusions.

This paper also offers insight into the fact that correlations tend to increase with aggregation:

For example, the correlations of the categories water and energy are on average of 0.36 and 0.38. This is substantially lower than the correlation of the environmental dimension with an average of 0.53 reported in Table 2. This implies that divergences compensate each other to some extent during aggregation. There are several potential reasons for this observation and we do not explore them exhaustively in this paper. One reason might be that category scores behave like noisy measures of a latent underlying quality, so that the measurement disagreement on individual categories cancels out during aggregation. It may also be the case that rating providers assess a firm relatively strict in one categories and relatively lenient [in] another one.

4.6.2. The Causes of Sustainability-Related Ratings Divergence

As described earlier in this section, the objectives of each sustainability-related rating scheme and the methodologies used by sustainability-related rating providers differ. These two factors lead to inconsistencies in the way in which sustainability-related rating providers measure, weight and rate company sustainability-related risk and performance. Given sustainability-related analysis is in large part subjective, sustainability-related ratings providers inevitably have different ways of classifying a company's sustainability performance based on whether they think specific environmental, social or governance concerns are more important than others. The weighting placed on fundamental categories of performance, risk exposure and governance varies across providers, as does the influence of non-company disclosed data (such as controversies) and the degree of granularity on specific issue areas. **This results in comparability issues of ratings across sustainability-related data providers for the same target company.**

The MIT Sloan School of Management study undertaken by Berg, Koelbel and Rigobon²³⁰ concludes that low correlation was due to three distinct sources of divergence:

Measurement divergence (which explained an average of 50.1% of total differences among sustainability-related ratings) occurs when different rating providers measure the same attribute using different indicators. One might evaluate a company's labour practices on the basis of workforce turnover, while another counts the number of labour cases against the company. Indicators used vary from those that focus on policies, such as the existence of a code of conduct, to those that focus on outcomes, such as the frequency of incidents, with differing assessment outcomes for the same issue. Additionally, providers have different ways of estimating or finding a proxy for data they do not have access to, and others will assume a lack of public information implies that the company is hiding negative data and will therefore penalise companies without sufficient information available.

Scope divergence (an average of 36.7% of differences) occurs when different ratings are based on different sets of attributes – i.e. different sustainability-related rating and data provider's measure different factors in their analysis. For example, one rating agency may include certain issues, such as GHG emissions, employee turnover, or human rights, in its ratings scope, while another has a different or additional issues in scope, such as corporate lobbying and diversity.

Weighting divergence (an average of 13.2% of differences) occurs when providers assign varying degrees of importance to attributes, for example, valuing human rights more than lobbying.

As indicated above, scope and measurement divergence were found to be the main drivers of low correlation, while weighting divergence is less important. In addition, the MIT Sloan School of Management study also identified the "rater effect" (described above in the section on bias) as being a driver for measurement divergence, as when a provider judges a company as positive for a particular indicator, they were then more likely to judge other indicators as positive too.

4.6.3. The Consequences of Low Correlation

The MIT Sloan School of Management study identified three major consequences for low correlation.

1. Sustainability performance is less likely to be reflected in company stock and bond prices. Investors are not able to identify sustainability outperformers and laggards. This is also found in the ESG Rating Disagreement and Stock Returns paper²³¹ where **low correlation has important consequences for responsible investors who rely on one single ESG rating in their investment strategies and fail to account for sustainability-related rating disagreement among rating and data providers.** The report found that there was a subtle and time-varying impact of this disagreement on future stock returns. Additionally, even if a large fraction of

²³⁰ Florian Berg, Julian F. Koelbel and Roberto Rigobon, 'Aggregate Confusion: The Divergence of ESG Ratings' (White paper, MIT Management Sloan School, May 17, 2020), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3438533.

²³¹ Rajna Gibson, Philipp Krueger, and Peter Steffen Schmidt, 'ESG Rating Disagreement and Stock Returns' (Research Paper, Swiss Finance Institute Research Paper No. 19-67; Working paper, European Corporate Governance Institute, 22 December 2019, pages 21–22), Updated on 30 June 2020 at SSRN, <https://ssrn.com/abstract=3433728> or <http://dx.doi.org/10.2139/ssrn.3433728>.

investors have a preference for sustainability performance, the divergence of the ratings disperses the effect of these preferences on asset prices.

2. **Divergence restricts companies from being able to improve their ESG performance, because they receive mixed signals from sustainability-related rating providers about which actions are expected and will be valued by the market.**
3. **Low correlation poses a challenge for empirical research, as using one sustainability-related rating provider versus another may alter a study's results and conclusions.**

The issue of reliance on sustainability-related rating providers that have low correlation or high divergence is profound where users of sustainability-related ratings rely solely on external sustainability-related rating providers for analysis, and even more so when they rely on a single sustainability-related rating provider. A recent report by ShareAction²³² found that of the 75 of the world's largest asset managers surveyed (including 40 in Europe), 89% offer funds labelled as 'sustainable' or 'ESG' or similar to clients; however, 51% were considered to have a weak approach to responsible investment. In the ShareAction survey, 70% of asset managers were found to rely on external data providers for sustainability-related data on human rights and do not have their own proprietary sustainability-related methodology, and 65% of asset managers indicated that they integrate biodiversity risks and impacts into investment decisions through the use of sustainability-related ratings. The ShareAction survey points to the very limited ability of these leading asset managers to identify salient human rights and hence the heavily reliance on external providers. Further, the survey highlights directly the issues of measurement divergence and the consequences of overreliance on sustainability-related data providers in relation to biodiversity in particular:²³³

The concerns aired more widely around sustainability-related data, providers' diverging methodologies, ratings discrepancy, and lack of transparency are no less relevant in the case of biodiversity. The length and quality of questionnaires sent by rating providers to companies with the aim of collecting biodiversity-related data can vary widely between different providers. For instance, in the case of agri-food companies, one major sustainability-related data provider only includes one question on biodiversity in its questionnaire, while another provider dedicates two pages of its questionnaire to biodiversity-related issues for the same industry. Asset managers should, therefore, be aware of the shortcomings of third-party data, avoid overreliance on data providers for the assessment of biodiversity-related risks and engage with providers on the development of methodologies to ensure that biodiversity is accurately reflected in sustainability-related ratings.

²³² ShareAction, *Point of No Returns: A Ranking of 75 of the World's Largest Asset Managers' Approaches to Responsible Investment*, March 2020, <https://shareaction.org/wp-content/uploads/2020/03/Point-of-no-Returns.pdf> and Part II - Human Rights and <https://shareaction.org/wp-content/uploads/2020/05/ShareAction-Human-Rights-Report-2020-Final.pdf>. Survey of the 75 largest asset managers, including 40 in Europe. All of which are members of the PRI.

²³³ ShareAction, *Point of No Returns, Point IV – Biodiversity: An Assessment of Asset Managers' Approaches to Biodiversity*, June 2020, page 19, <https://shareaction.org/wp-content/uploads/2020/06/ShareAction-Biodiversity-Report-Final.pdf>.

4.7. The Views of Market Actors

Asset manager and asset owner responses (33 respondents) to the survey conducted as part of this study revealed that 80% of respondents reported that there is a weak correlation between sustainability-related rating provider assessments. The reasons for this concur with those outlined above, with respondents commenting that each sustainability-related rating agency has their own methodology, which is fundamentally different to that of other sustainability-related rating providers (the secret sauce analogy), and that the data used is subjectively interpreted and inconsistently assessed, including the application of different weightings for different components of sustainability.

74% of company representatives (61 respondents) that responded to the question of whether sustainability-related rating providers provided similar ratings for their company reported that this was not the case. As with asset managers and owners, the vast majority report that the reasons for this are differences in methodology and weighting. A factor raised by around 10% of the company respondents but not by asset managers is the issue of the quality and experience of the analysts undertaking the work and the accuracy of the assessment undertaken by analysts.

The fact that there is a weak correlation was generally recognised, and accepted by asset managers and asset owners. It was reported by respondents that they analyse the differences in sustainability-related ratings across providers, and that sustainability-related ratings are used to supplement asset managers and asset owners in-house research, including engaging with companies directly, to form their own opinion on sustainability performance. It was also reported that the difference in approach reflects investor diversity and the varying focus or priorities across investors. However, from a company perspective, **the low correlation results in companies and other stakeholders questioning the credibility of sustainability-related ratings and highlights the lack of standardization in approach.** As one respondent summarised, it is useful from investment perspective but frustrating for companies.

The perceived need for greater transparency of the methodologies used by external providers was a common theme across responses from across asset managers, asset owners and company respondents and for greater clarity and understanding in the market of what these sustainability-related ratings each represent.

Sustainability-related rating providers themselves accept that the correlation between sustainability-related ratings is low, or indeed irrelevant, and do not consider this to be an issue. Sustainability-related rating providers consider variability in methodology and output to be a source of investor insight. Given the wide spectrum of sustainability themes, and strategy adopted by sustainability-related rating schemes, the common view expressed is that it is inevitable that an aggregated view will vary, potentially substantially, depending on the intent of the sustainability-related rating scheme, the themes applied (scope), the underlying indicators selected and their relative weights. Perhaps unexpectedly, sustainability-related rating providers consider diversity in sustainability-related ratings to be positive, and beneficial for investors, as long as there is transparency on how they have been derived.

When questioned on the broader topic of how the European Commission could intervene to address issues in the sustainable investment market and provision of sustainability-related rating, data and research, asset managers and asset owners centred on the need for companies to improve the reporting of sustainability data and requiring sustainability

product and service providers to be more transparent, such that it is easier to compare between them. **Asset managers called for compulsory sustainability performance reporting from companies in a standard format and transparency of data and methodologies deployed by sustainability-related rating, data and research providers.** In addition, there was a need recognised for obtaining a consensus on definitions and a register of all sustainability-related data providers, and to make sure that their products are clear and understandable.

Company representatives responded to the question of how the European Commission could intervene with wide range of proposed measures. The most common response was to establish minimum transparency requirements for sustainability-related rating providers, particularly in relation to governance structures, methodologies adopted and codes of conduct. Further to this, suggestions broadly aligned with the following themes:

- Require consistency in approach, methodology and standardized processes for sustainability-related rating and data providers through, for example, a common framework to improve the reliability, validity, robustness and comparability of data.
- Promote harmonisation of reporting frameworks and ratings to ensure greater alignment with reporting standards, such as GRI.
- Require that providers engage with companies, address feedback and correct errors in a timely manner.
- Develop standards for sustainability-related rating, data and research providers to improve the quality of the information and output provided, and establish a quality assurance / auditing scheme for sustainability-related rating providers.
- Establish a public database where companies publish the required sustainability-related information for ratings agencies and investors to access for analysis instead of approaching the companies individually. A prerequisite for this database would be to transparently disclose the assumptions and methodologies for the provided sustainability-related information and to agree on a common set of indicators.
- Act to provide a clearer definition of the landscape for the use of sustainability-related ratings, data and research, and the use of consistent terminology.
- Require that sustainability-related rating providers adopt a code of conduct which they apply and report upon according to the “comply or explain” principle. Prohibit of conflicts of interests, notably in terms of ownership and services offered.
- Establish a registration and certification system that would ensure that registered status is guarded diligently and applicants are granted registration only if they demonstrate their ability to meet all the regulatory requirements. Set up an ombudsman to deal with claims and provide enforcement measures in cases where incorrect reporting or misleading disclosure affects a company’s reputation.

When asked for views on how the European Commission can intervene to strengthen the sustainable investment market and provision of sustainability-related rating, data and research, **the leading sustainability-related product and service providers supported efforts to improve and enhance company sustainability-related disclosures and the transparency of methodologies to allow users to better**

understand and compare sustainability-related data, and to enable the more informed use and application by stakeholders. The establishment of minimum transparency and quality standards for sustainability-related ratings, data and research was proposed, including aspects such as the objectives and purpose of individual sustainability-related rating approaches, transparency of methodologies and processes and independence with regards to the commercial model. As noted by one leading sustainability-related rating, data and research provider:

[We] support calls for more transparency with respect to what ESG ratings providers measure and how providers evaluate companies. Improved transparency covering how ESG ratings agencies assess companies will enable investors to provide greater clarity to their stakeholders about what they are measuring in their products.

Sustainability-related product and service providers strongly oppose regulation of methodologies deployed, assessment techniques, how information is used or other efforts to harmonise sustainability-related ratings/scores. As one leading sustainability-related rating, data and research provider commented:

[We] strongly oppose any attempts by the European Commission to regulate the harmonization of providers' ESG ratings and scores. Creating a one-size-fits-all scenario for ESG ratings runs counter to ensuring vibrant and innovative markets. While underpinned by consistent and regulated financial disclosures (IFRS, GAAP, etc.), investment analysts have different buy/sell/hold views on stocks, and credit ratings agencies may have different takes on the credit worthiness of a company. Similarly, investors demand multiple, diverse viewpoints and perspectives on ESG to help them make more informed decisions.

Part V: Use of Sustainability-Related Products and Services

5.1. Use by Investors and Benchmark Administrators

5.1.1 Introduction

This part of the study outlines the use by investors and benchmark providers of sustainability-related products and services. This section considers the following aspects:

- **Use of external information and data providers:** To what extent asset owners, managers and benchmark administrators obtain data from third parties or directly from companies, including the role of sustainability-related product and service providers in the flow of sustainability information from companies to investors. This will also explore to what extent and why asset owners, managers and benchmark administrators rely on sustainability information provided by third parties despite the disclosure of sustainability information by companies directly.
- **In-house capacity:** The proportion of asset owners, managers and benchmark administrators which have developed in-house sustainability-related analysis and tools, compared to those that obtain sustainability-related products and services from external third-parties. This will also explore what is considered to be better undertaken in-house.
- **Selection and integration:** What are the key reasons why asset owners, managers and benchmark administrators use sustainability-related product and service providers and how are these providers selected. To what extent do asset owners, managers and benchmark administrators integrate the data and information obtained from third party providers into their investment decision-making and due diligence processes.
- **Feedback:** The perceived degree of transparency of the methodology of the providers and outlined issues of sustainability-related products and services identified by asset owners, managers and benchmark administrators.
- **Correlation with needs and value proposition:** To what extent the sustainability-related products and services provided correspond to the needs of asset owners, managers and benchmark administrators. This will also explore whether the high variety of products and services offered in the market of value and what are the views on standardisation and comparability.

Information for this section comes from interviews and surveys with asset owners, managers and benchmark administrators, NGOs and ESG industry experts conducted for this study (all with a focus on the EU); data gathered during the process of completing the Rate the Raters 2018, 2019 and 2020 Reports and the Extel Surveys and SRI-CONNECT Independent Research in Responsible Investment Survey conducted in 2019 (the IRRI Survey 2019); the EC's Consultation on the renewed sustainable finance strategy; and extensive desk-based research (literature review).

5.1.1. Use of External Information and Data Providers

Use by Asset Managers

Almost all asset managers in the EU now consider sustainability-related factors in some their investment process. The Russell Investments ESG asset manager survey 2020²³⁴ revealed a very high level of ESG awareness and increasing ESG factor integration among the asset management community, and reported that 97% of the asset managers that responded from continental Europe said that they incorporate explicit qualitative or quantitative ESG factor assessments systematically in their investment process. In the UK, the proportion is 87%, and globally, the proportion is 78%.

Asset managers receive some of their sustainable investment information via sustainability-related product and service providers. The Russell Investments 2020 survey reports that **asset managers are increasingly combining externally produced sustainability-related data with internally produced sustainability-related metrics to form opinions on specific investment opportunities**. Specifically, 46% of global respondents to that survey rely primarily on internally produced quantitative data, while 35% stated they relied predominantly on externally produced quantitative data. Thirty-five percent of respondents said that they primarily rely on externally produced quantitative data which is augmented with internally produced sustainability-related information. Across the asset classes, external sustainability-related data usage increased in recent years, suggesting more sustainability-related specific information is available across all markets. However, many asset managers are forming their sustainability-related insights with in-house views supplemented by sustainability-related data from external providers.

The extensive, and increasing, use of sustainability-related rating, data and research providers by asset managers is further evidenced by the fact that MSCI ESG Research alone report that they work with 46 of the biggest 50 asset managers²³⁵ and the larger sustainability-related ratings, research and data providers each number their asset manager clients in the hundreds. The three largest sustainability-related rating and data providers based on those referenced by asset managers globally in the Russell Investment 2020 survey, in order of percentage of asset managers that subscribe to their services, are MSCI ESG Research (42%), Sustainalytics (37%) and ISS-oekom (31%). The use of sustainability-related data has moved beyond solely the large asset managers, who have the resources to subscribe to multiple providers, to a wider audience through the use of data aggregators such as Bloomberg. This gives access to competing sustainability-related ratings, detailed metrics and associated data to all asset managers that subscribe to the Bloomberg Terminal service.

²³⁴ Russell Investments, *2020 ESG Manager Survey: Turning Up the Volume*, October 2020, <https://russellinvestments.com/uk/blog/2020-esg-manager-survey>. A total of 400 asset managers from around the globe participated this 2020 ESG Manager Survey. The survey participants have broad representation by asset size, region and investment strategy offerings. 60% of the respondents are headquartered in the U.S., 14% are based in United Kingdom, 8% are based in Continental Europe, with the remainder in other regions. 40% of the respondents have assets under management less than US\$10 billion. Conversely, 25% of the participants have over US\$100 billion in assets.

²³⁵ MSCI, 'MSCI ESG Research: Overview and Products' (Research paper, MSCI, 2017), https://www.msci.com/documents/1296102/1636401/MSCI_ESG_Research_Factsheet.pdf/411954d3-68af-44d6-b222-d89708c5120d.

The wide use of sustainability-related ratings and data by asset managers is further evidenced by the Opimas report published in March 2020.²³⁶ This finds that asset managers spend the most of all market participants (59% of all spend) on 'ESG data' products (classified as raw data to ESG ratings in the study).

Typically, asset managers use sustainability-related data all across whole the investment decision process, including for portfolio selection, index construction, risk management, voting practices, and engagement with companies.^{237,238} The type of sustainability-related products that asset managers purchase and the work that they do in-house depends, to a large degree, on the nature of the ESG investment strategies that they offer to their clients.

In the survey conducted for this study, and in the IRRI Survey 2019²³⁹, in response to the question of what external resources are currently used to support sustainable investment strategies that they apply, asset managers reported that they each buy from multiple sustainability-related product and service providers. On average, each survey reported that asset managers subscribe to average of two sustainability-related rating and data providers (such as MSCI or Sustainalytics) plus they engage, on average, a further 2.5 sustainability-related product and service providers for research or analysis purposes. The Russell Investment 2020 survey²⁴⁰ also indicates that many asset managers subscribe to multiple ESG data providers, and suggests that there is yet to be a provider that offers a single solution for asset managers across all asset classes.

Asset managers tend to receive basic data-driven information from sustainability-related product and service providers and look to sell-side providers, to independent specialists or to their own in-house teams for more complex investment-thesis orientated research. As reported by Russell Investments in their 2020 Survey²⁴¹, **increasingly asset managers are forming their ESG insights with in house views supplemented by external ESG data providers.** Arguably, the blend that asset managers achieve between externally sourced and in-house work (combined with product suitability and financial performance) is one of the key differentiators amongst asset managers within the sustainable investment market. This exemplified by Allianz Global Investors, who use of third-party sustainability-related ratings, data and research as a starting point and to achieve the necessary coverage, whilst deploying their own proprietary insights obtained through knowledge of the company's business, their own in-house sustainability-related expertise and analysis of sustainability-related risks and factors to add value for their clients and differentiate themselves in the market. This approach is used to ensure that they are not overly reliant on external research and can generate independent and differentiated insights into sustainability-related topics ahead of the market.²⁴²

From the survey conducted for this study, 15 asset managers responded to the question on where they sourced their sustainability information on companies. There was a wide

²³⁶ Anne-Laure Foubert, ESG Data Market: No Stopping Its Rise Now, Opimas, March 2020, <http://www.opimas.com/research/547/detail/>.

²³⁷ Ibid.

²³⁸ PRI, 'Driving Meaningful Data: Financial Materiality, Sustainability Performance and Sustainability Outcomes' (Research paper, PRI, 24 September 2020).

²³⁹ Extel and SRI-Connect, Independent Research in Responsible Investment Survey 2019, SRI-Connect, 2019.

²⁴⁰ Russell Investments, *2020 ESG Manager Survey: Turning Up the Volume*, October 2020, page 6, <https://russellinvestments.com/uk/blog/2020-esg-manager-survey>.

²⁴¹ Ibid.

²⁴² Ibid.

range of answers, but overall there was relatively even split between asset managers receiving information directly from that published by companies and information provided on companies via sustainability-related data or research providers. Asset managers also received information, to a lesser extent, via company meetings and presentations, and from non-company sources such as industry bodies, NGOs and the media. This is consistent with the Russell Investments 2020 survey²⁴³, which reports that most common sources of sustainability-related information for asset managers is direct engagement with companies (77% of asset managers), followed by sustainability-related company disclosures (71%) and the use of 'external ESG research' providers (63%). The use of 'external ESG research' provider category was reported to have increased the most from the prior year, highlighting how asset managers are increasingly incorporating additional ESG-related inputs available in the marketplace.

In the survey conducted for this study and the IIRI Survey 2019, the vast majority (75%) of asset managers anticipated an increase demand for both in-house sustainability-related research capacity, and external sustainability-related data, rating and research products and services, at broadly equivalent levels.

When asked about budgets for expenditure on external sustainability-related research in 2019, of the 26 asset managers that responded in the survey conducted for this study, 61% had a budget of more than EUR 200,000, with a further 16% between EUR 100,000 and EUR 200,000, and 8% less than EUR 100,000 (note that 15% of respondents did not know the annual budget).

When asked the approximate split of this budget across the various provider types in 2019, asset managers responded with a wide range of answers, resulting in an average of 56% for sustainability-related ratings providers and 20% for data providers. The remaining 24% was split between other sustainable research providers, sell-side brokers and credit ratings agencies.

The broad range of sources utilised by asset managers reflects a number of issues, including concerns about the quality and consistency of data, increasing use of in-house teams to create a proprietary sustainability-related rating and a lack of confidence in ESG ratings as a single definitive number. These issues are examined further in this section.

In addition, as part of the survey conducted for this study, asset managers were asked where the most valuable information for ESG integration comes from. There were two common themes among responses, which were that meetings with companies generally provided the most useful information, along with in-house analysis. There was no mention of ESG ratings providers by any of the 22 asset managers who responded to this question.

Use by Benchmark Administrators

Benchmark administrators are divided between those that use in-house teams to gather data and produce the ratings that underpin benchmarks (e.g. FTSE, MSCI ESG), those that outsource such collection to third parties (e.g. Solactive outsources to ISS; Stoxx outsources to Sustainalytics) and those that use a combination of data sources, backing up in-house data with external sources.

²⁴³ Ibid, page 12.

Importantly, the nature and extent of research required depends on the type of products that the benchmark administrator seeks to offer in respect of ESG. For example, a simple rating might be sufficient for an ESG-tilted index. However, more granular data will be required for any analytics products that are offered alongside to asset owners alongside any benchmarkable index.

One benchmark administrator responded to the survey conducted for this study by noting that 'we need to support a wide variety of customer needs and often need specialist third party data that we do not have in-house.' There is also a mixture of data sourced directly from companies and through third-party providers. One administrator noted that 'between 50 and 90% of our data collection to date has come directly from companies, it varies between benchmarks, the remainder coming from third party sources to cross check although we are cautious in such instances and are transparent where we do (bringing also to companies' attention as a relevant data source).' Another commented that 'we develop our own ESG and Green Revenue core data but supplement this with other specialist data for example on controversies and on certain asset class specific information.'

Many benchmark administrators provide sustainability indices based on ESG ratings (e.g. FTSE Russell ESG Index series²⁴⁴), some of which are constructed by the administrator themselves, and some of which are bought in from third parties.

Use by Asset Owners

The FTSE Russell 2019 Survey²⁴⁵ reported that 83% of European asset owners are currently implementing or evaluating ESG considerations into their investment strategies, and increase from 76% in 2018. Asset owners' activities in sustainable investment tend to focus on asset allocation, manager selection and monitoring, reporting & communications, and industry & public policy activity.

From the survey conducted for this study, asset owners were asked which sustainability-related product and services delivered most value to them. The top two responses related to the use of ESG ratings and screening services, valuing this significantly higher than sustainability-related data and research. This indicates use of sustainability-related product and services for portfolio wide analysis.

The approach of asset owners is split between those that have in-house investment capacity versus those that outsource entirely to external asset managers. As a result, their use of sustainable investment data, ratings and research differs significantly. In general, as noted above, asset owners tend to need portfolio-wide analytics rather than single stock data and research. For their core activities, they require the sustainable investment services set out in the table below:

Table 29: Asset-Owner Sustainability-Related Data and Research Requirements

Asset Owner Activity	Research and Data Services Required
Asset allocation	Thematic and contextual sustainable investment research to understand macro sustainability trends
Manager selection	N/A

²⁴⁴ 'FTSE ESG Index Series', FTSE Russell, <https://www.ftserussell.com/products/indices/esg>.

²⁴⁵ FTSE Russell, *FTSE Russell Smart Sustainability: 2019 Global Survey Findings from Asset Owners*, page 8, https://content.ftserussell.com/sites/default/files/smart_sustainability_2019_global_survey_findings_from_asset_owners.pdf.

Manager monitoring	Data (and possibly ratings) for analytics of portfolio exposures
Reporting & communication	Data for analytics of portfolio exposure. Possibly thematic and other sustainable investment research for context and case studies
Industry & public policy activity	Controversy alerts, engagement support research and possibly data to support these

There are, however, two notable exceptions to these core activities. Firstly, some asset owners also manage their own assets. They therefore interact with the market in the same way as asset managers and have similar research needs. For the purposes of this study, such asset owners were considered to be asset managers, as this corresponds to the function that they fulfil in the market. Secondly, some asset owners (notably larger European owners and those with strong ethical motivations, such as churches, charities and foundations) engage directly with companies. For this they need access to engagement-related research and controversy alerts.

There are also discrepancies between asset owners based on their type and size. As reported by Opimas in the March 2020 survey, while tier I insurance companies have been at the forefront of ESG data integration across their activities (for example, identifying potential ESG-related risk is now central to calculating premiums for corporate insurance), the situation is very different among tier II and tier III pension funds that are more likely to only have implemented investment policies using ESG exclusionary screening (e.g., not investing in tobacco industry) as they are otherwise often under-equipped to leverage ESG criteria beyond an overall fund rating.²⁴⁶ This is supported by the FTSE Russell 2019 survey of asset owners²⁴⁷ that reports that the most common application of 'ESG data' by all asset owners is for negative screening (over 60%) and that 46% of the larger asset owners are likely to go beyond screening, a proportion that drops to 26% of smaller asset owners.

5.1.2. In-House Capacity

In-House Capacity for Asset Managers

As discussed above, the vast majority of asset managers use third party sustainable investment data, ratings and research providers to some extent. For some, this is their main source of sustainability-related information, but for most, it is one of many sources, including in-house expertise.

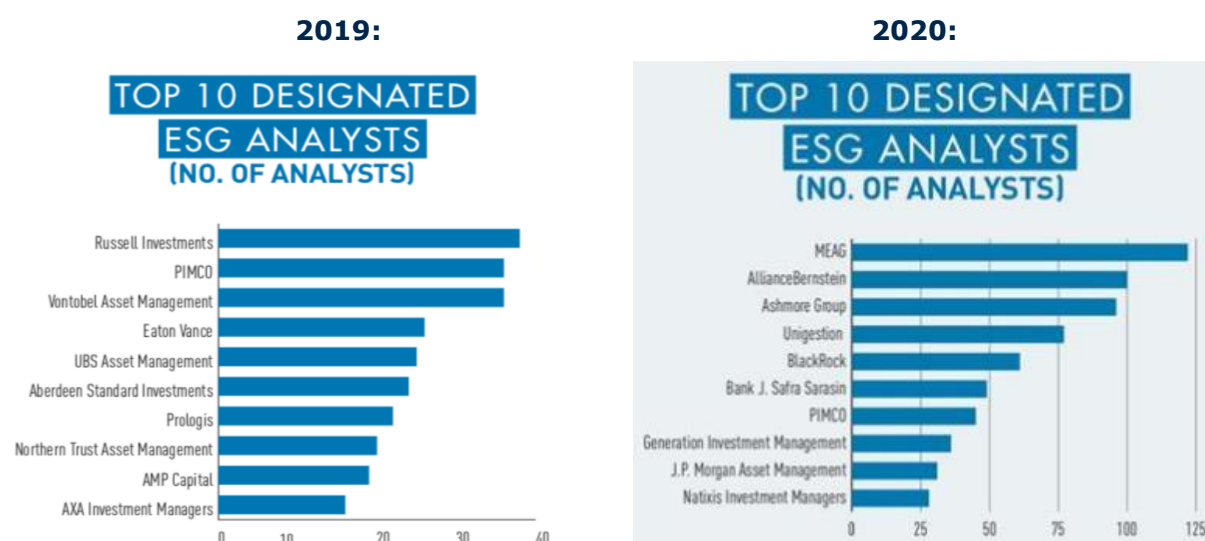
An increasing number of asset managers have dedicated in-house sustainability-related research analysts, and more asset managers are producing their own company ESG analysis. Based on the results of the IRR Survey 2019²⁴⁸, asset managers employ an average of 2.3 sustainability portfolio managers, 4.2 sustainable investment analysts and 1.1 sustainability specialists within their communications or client relations team.

²⁴⁶ Anne-Laure Foubert, *ESG Data Market: No Stopping Its Rise Now*, Opimas, March 2020, <http://www.opimas.com/research/547/detail/>.

²⁴⁷ FTSE Russell, *FTSE Russell Smart Sustainability: 2019 Global Survey Findings from Asset Owners*, https://content.ftserussell.com/sites/default/files/smart_sustainability_2019_global_survey_findings_from_asset_owners.pdf.

²⁴⁸ Extel and SRI-Connect, *Independent Research in Responsible Investment Survey 2019*, SRI-Connect, 2019.

The 2019²⁴⁹ and the 2020²⁵⁰ survey of the 500 leading global asset managers by IPE shows a substantial increase in the number of 'designated ESG analysts' employed by asset managers (see Figure 22). The asset managers with the most dedicated ESG or responsible investment analysts in 2019 according to the IPE survey were Russell Investments (US) with 38 and PIMCO (US/Germany) and Vontobel (Switzerland) with 36 each. In 2020, the asset managers with the most dedicated ESG or responsible investment analysts, were MEAG (Germany), AllianceBernstein (UK) and Ashmore Group (UK) all of which reported close to or more than 100. Allianz Global Investors (Germany), although not included in the IPE survey tables, also report that they have 100 dedicated sustainability investment professionals as of June 2020²⁵¹. The average number of 'designated ESG analysts' in the top 10 asset managers more than doubled between the 2019 and 2020 surveys.



Source: IPE Research

Figure 22: The Top 10 Asset Managers with the Highest Number of 'Designated ESG Analysts' in 2019 and 2020

Over the last two years there has been a significant increase in the number of senior ESG or responsible investment roles and this trend is anticipated to continue. In the IIRI Survey 2019, 91% of asset managers reported that they expect a steady or significant increase in resourcing for sustainability-related research over the next 3 years.

This trend for asset managers to increasingly employ in-house, dedicated ESG professionals is greatest on the EU. The Russell Investments survey²⁵² reports that in 2020, 90% of asset managers in Continental Europe employ dedicated ESG

²⁴⁹ 'Which asset managers have the most ESG analysts,' IPE, 2019, <https://www.ipe.com/chart-of-the-week-which-asset-managers-have-the-most-esg-analysts/10031569.article>.

²⁵⁰ IPE, *Top 400 Asset Managers*, 2020, <https://www.ipe.com/reports/top-500-insights/10045922.article>. 2019 data:

²⁵¹ 'The ESG Research Team', ESG Research, Allianz Global Investors, <https://www.allianzgi.com/en/our-firm/esg/esg-research>.

²⁵² Russell Investments, *2020 ESG Manager Survey: Turning Up the Volume*, October 2020, pages 10-11, <https://russellinvestments.com/uk/blog/2020-esg-manager-survey>.

professionals who spend more than 90% of their time on ESG specific issues. This has grown rapidly from 62% in 2018. The equivalent proportion of asset managers in 2020 with in-house professionals globally is 43%. Overall, larger asset managers are more likely to have a separate, dedicated ESG team, whilst smaller asset-based firms are more likely to leverage an existing investment team for conducting ESG-related investment analysis.

Asset managers who have in-house capability vary between fully integrated ESG, where all analysis and investment decisions integrate ESG considerations, through to separate ESG teams who provide input to investment specialists. The BNP Paribas ESG Global Survey 2019²⁵³ highlighted that only 23% of respondents have ESG embedded throughout the organisation, while 30% have an ESG team which is separate to the investment team and 43% have a dedicated ESG resource in each investment team. Further, the BNP Paribas research reports that only a minority of institutional investors have transformed their operating model, investment approach and engagement strategies to embed ESG principles across the organisation.

Buying sustainability-related ratings, data and research allows asset managers to implement customized ESG strategies without committing extensive in-house resources to the effort. The range of sustainability-related products and services on the market enables asset managers to select providers that meet their preferences. Buying such products and services does not restrict asset managers from customization. Asset managers can still tailor sustainability-related information using a custom aggregation of category scores or raw data that are supplied by a provider.

From the survey conducted for this study, around half of asset managers generate their own in-house ESG ratings using multiple sources, combining data from several sustainability-related ratings and research providers with in-house expertise and direct company-sourced information.

The in-house ratings by asset managers most often take the form of internal platforms or tools, some for ESG analysis and some for integrated analysis of ESG within a complete company assessment. **When asked which parts of sustainable research were best done in-house by asset managers, there was a broad range of responses, but with a common theme of taking ESG data as one of several inputs to create a methodology to accurately assess company performance.** A number of asset managers referred to identifying the links between ESG data and fundamental financial valuations, while engagement was also mentioned as an activity best undertaken in house.

One asset manager summarised several common themes in stating 'we believe that the ESG research process should be undertaken fully in-house. ESG analysis must go beyond data to also include an assessment of how companies are prepared to manage ESG risks and opportunities going forward. As a significant amount of ESG research is qualitative in nature, we believe that interacting directly with the management team and forming an opinion on their capabilities and attitude is critical to developing our ESG assessment for the company.'

²⁵³ BNP Paribas, 'The ESG Global Survey 2019: Asset Owners and Managers Determine Their ESG Integration Strategies' (White paper, BNP Paribas Securities Services, 2019), <https://securities.bnpparibas.com/files/live/sites/web/files/medias/documents/esg/esg-global-survey-en-2019.pdf>.

There was a clear theme among asset managers that developing in-house capacity would enable them to be less reliant on third-party providers and to produce ESG company analyses which they felt would be more accurate and decision useful. Approximately half the asset managers responding to the study survey commented that ownership of the sustainability-related data and the analysis model applied, along with evidence supporting the output, was increasingly important to them, or expressed a desire to be able to operate independently of sustainability-related rating and data providers.

When asked through the survey undertaken for this study which parts of sustainable research are best done by third parties, again there was a range of responses from asset managers, with the most commonly mentioned activity being the screening, collection and aggregation of data at scale in order to free up staff time for higher value-added analysis. As an example, one respondent commented that raw data and company rating are sourced from third parties as they have the capacity to deal with thousands of companies. Controversy research and proxy voting were also mentioned numerous times, as areas which require specialised knowledge or data processing capability.

From the BNP Paribas ESG Global Survey 2019²⁵⁴, in Europe, 64% of respondents are planning to dedicate more resources to ESG as a result of regulation, in particular the EC Action Plan on Sustainable Finance. For the survey we undertook for this report, responses were more mixed, with asset managers considering their own disclosure requirements as well as opportunities created by better reporting requirements for large companies from the Non-Financial Reporting Directive. One asset manager noted that if company reported data becomes more widely available, this would allow more time to be dedicated to ESG analysis.

In-House Capacity for Benchmark Administrators

As mentioned in the previous section, benchmark administrators are split between those that outsource data collection and those that do everything in-house. There has been a growing trend over the past decade for index providers to buy specialist sustainability-related data and research companies to provide in-house data collection and analysis, as evidenced by MSCI's purchases of companies such as GMI Ratings (2014) and Carbon Delta (2019), S&P's acquisition of Trucost (2016) and Morningstar's acquisition of Sustainalytics (2020). This acts as a differentiator for index providers, who can use proprietary methodologies and in-house data to offer a range of issue-specific and tailor-made indices for clients. For example, the Sustainalytics/Morningstar press release²⁵⁵ notes: "Since 2016, Morningstar and Sustainalytics have teamed up to supply investors around the world with new analytics, including: the industry's first sustainability rating for funds, rooted in Sustainalytics' company-level ESG ratings; a global sustainability index family; and a large span of sustainable portfolio analytics that includes carbon metrics and controversial product involvement data. With this acquisition, Morningstar plans to continue to invest in Sustainalytics' existing business while also further integrating ESG data and insights across Morningstar's existing research and solutions

²⁵⁴ BNP Paribas, 'The ESG Global Survey 2019: Asset Owners and Managers Determine Their ESG Integration Strategies' (White paper, BNP Paribas Securities Services, 2019), <https://securities.bnpparibas.com/files/live/sites/web/files/medias/documents/esg/esg-global-survey-en-2019.pdf>.

²⁵⁵ Sarah Wirth and Sarah Cohn, 'Morningstar to Acquire Sustainalytics and Expand Access to ESG Research, Data, and Analytics for Investors Worldwide', *ESG Investing News, Sustainalytics*, 21 April 2020, <https://www.sustainalytics.com/esg-investing-news/morningstar-acquires-sustainalytics/>.

for all segments, including individual investors, advisors, private equity firms, asset managers and owners, plan sponsors, and credit issuers.”

In the survey conducted for this report, benchmark administrators were asked where they sourced fundamental sustainability-related research they needed to shape and develop new index products and the responses were that they had in-house research teams to do this.

In-House Capacity for Asset Owners

A recent poll of 110 asset owners by Morgan Stanley²⁵⁶ showed that 45% integrate sustainable investing across the board, with a further 35% integrating it within a portion of their portfolio. However, only 36% of asset owners feel they have adequate tools to assess ESG alignment, with 31% saying they do not. Challenges to internal adoption included quality data, proof of market-rate financial returns and lack of knowledge about sustainable investing. Asset owners are also clearly reliant to some extent on asset managers, with 86% believing that managers can help owners by providing relevant reporting on sustainability and ESG performance and 81% saying managers can help by providing education on ESG/sustainable investing approaches, issues and trends.

Within Europe, the largest asset owners all have substantial in-house capacity. Asset owners and managers who are signatories to the PRI are asked to declare the number of dedicated responsible sourcing staff they employ. The following European asset owners who are signatories and have made their responses transparent, each have dedicated responsible sourcing staff as follows, for example: Allianz SE = 35; AXA group = 12; Deutsche Bundesstiftung Umwelt = 4; Crédit Agricole Assurances = 3; and Landesbank Baden-Württemberg (LBBW) = 1.

Additionally, Stichting Pensioenfonds ABP, the Netherlands government and education pension fund, is administered by its subsidiary APG, while Stichting Pensioenfonds Zorg en Welzijn (PFZW), the Netherlands health care pension fund, is administered by PGGM, a cooperative asset manager set up to manage the fund which has in-house capacity with their own ESG scoring system. Similarly, the Government Pension Fund of Norway has delegated operation of the fund to Norges Bank Investment Management, part of the Norwegian Central Bank and effectively an in-house asset manager.

Further analysis of the PRI data and desk research shows that there is a significant discrepancy between the largest asset owners who have their own substantial in-house asset management capacity and the majority of smaller asset owners who have in many cases a single person responsible for ESG, if at all, and are heavily reliant on simple metrics and tools. This reliance is a source of frustration for asset managers as explored further in the section below.

²⁵⁶ Morgan Stanley Institute for Sustainable Investing, 'Sustainable Signals: Asset Owners See Sustainability as Core to the Future of Investing' (White paper, Morgan Stanley Investment Management, 2020), https://www.morganstanley.com/content/dam/msdotcom/sustainability/20-05-22_3094389%20Sustainable%20Signals%20Asset%20Owners_FINAL.pdf.

5.1.3. Selection and Integration

Selection and Integration for Asset Managers

There is a variety of different motivations for asset managers to use sustainability-related ratings, data and research, from full-scale integration to improve investment performance, though to a 'box-ticking' exercise for reputational reasons.

SustainAbility has undertaken two surveys of asset managers as part of the 'Rate the Raters' series of reports,²⁵⁷ in 2012 and 2020, to determine which factors are material to their selection decisions for sustainability-related ratings specifically. In 2012 the main reasons for using sustainability-related ratings, perhaps reflecting the nascent asset class of the industry at that time were as follows (in order of priority):

- Benchmark companies against their peers
- Make investment decisions
- Gain intelligence on company ESG strategy /performance
- Engage companies on their ESG practices
- Cast proxy votes

By the time the Rate the Raters report was issued in 2020 the reasons for using sustainability-related ratings had changed somewhat dramatically, indicating the increased maturity of investors in incorporating sustainability issues following strong demand from clients to do so. In 2020 the main reasons were:

- To inform the asset managers own proprietary ratings – using as one data point in a larger body of research work
- As a starting point, benchmarking tool and warning system – indicating that they do not drive investment decision making
- Using the underlying sustainability-related data, not the rating itself – indicating that the asset managers are relying more on the data underlying the sustainability-related rating rather than the rating score
- Screening / exclusions and direct engagement – used as a signal for further company engagement and in some cases to exclude or identify best-in-class stocks

These findings were reinforced by the survey conducted for this study. Asset managers were asked how they used ESG ratings and the responses are shown in the pie chart below, with more than half of respondents saying that they were a screening tool and starting point for further analysis.

²⁵⁷ ERM, *Rate the Raters 2020*, March 2020, <https://www.sustainability.com/thinking/rate-the-raters-2020/>.

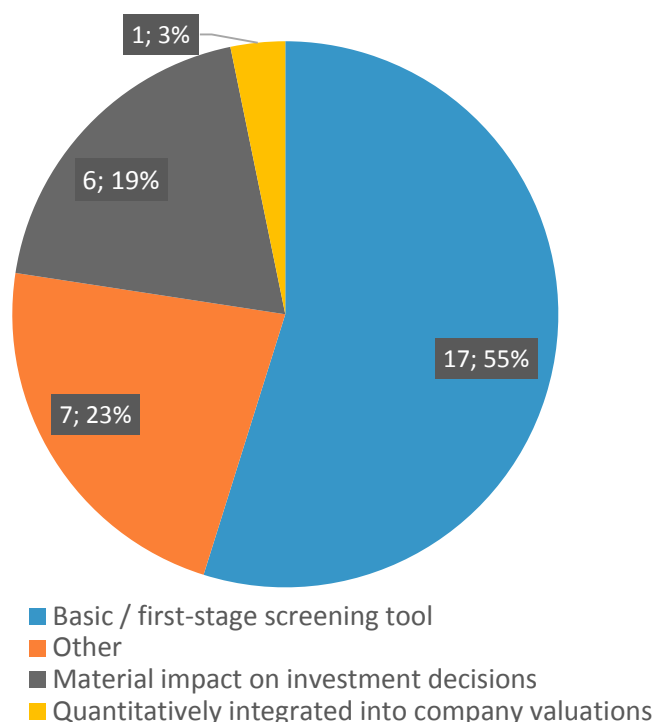


Figure 23: Responses to the Question: “How do asset managers use sustainability-related ratings?”

Selection of Sustainability-Related Rating Providers

The criteria for selecting sustainability-related rating providers was a pertinent question in the Rate the Raters 2020 study, with investors suggesting they regularly, most often annually, evaluate their sustainability-related rating provider.

Factors that investors consider to be important in determining sustainability-rating quality (in order of priority):

1. Broad coverage across sectors and geographies (note this was a write-in in the survey, demonstrating its importance)
2. Quality of methodology
3. Disclosure of methodology
4. Focus on relevant/material issues
5. Credibility of data sources
6. Experience / competence of research team.

All six criteria listed above were ranked highly by investors, with little separating them (in particular the top 4). Interestingly both ‘experts’ and investors rank the above factors similarly, except for disclosure of methodology which investors rank more highly.

Further, when asked what changes and solutions they would like to see in the next five years the leading responses by investors were to: improve the quality and disclosure of rating methodologies, a greater focus on material issues and a stronger link to company financial performance. These expectations were reiterated in the interviews conducted for this study along with a desire for more timely coverage, more data, integration of ESG into financial reporting and the ability to evaluate societal impact vs. just operational performance.

These findings were reinforced by the survey conducted for this report, which showed the top factors for choosing a sustainability-related rating, data and research provider were the breadth of coverage; data accuracy; the relevance / materiality of data and rating; transparency of methodology and accessibility of the data.

Selection and Integration for Benchmark Administrators

Benchmark administrators use sustainability data to create and maintain sustainability indexes. This market is growing rapidly and is seen as a significant business opportunity by providers. From the S&P Global website:²⁵⁸ 'As investors move more of their money into environmental, social and governance, or ESG, strategies, legacy benchmark stewards including MSCI Inc., S&P Global Inc. and London Stock Exchange Group PLC-owned FTSE Russell have been working to build out their sustainability data businesses. Investors have begun seeking consistent data on a given company's approach to everything from climate change to gender pay disparities. Index providers' ratings tools tend to serve as the foundations for their ESG-focused indexes as well. There was a 60% increase in ESG-related equity indexes in the year leading up to June 30, 2018, according to the Index Industry Association, a trade organization that represents more than a dozen different index providers. The variety of ESG indexes now offered in the market is the latest indication that investors are looking for customized benchmarks that conform to their personal beliefs.'

A summary of some key benchmark administrators and their data providers is given in the table below:

Table 30: Selected Key Benchmark Administrators and Their Data Providers

Ownership Type	Benchmark Administrator	SRI Benchmarks Offered	Data Sources
Stock exchange	FTSE International	FTSE4Good FTSE Smart Sustainability FTSE Global Choice, etc (see here)	FTSE's Russell's in-house ESG research team and Beyond Ratings
Data provider	Bloomberg	SASB ESG Indexes BBG Barclays MSCI ESG Fixed Income Indexes Gender-equality Index	SASB, SSGA
Stock exchange	Euronext	Low Carbon Indices	
Stock exchange	NSE Indices Ltd	NIFTY100 ESG Index NIFTY100 Enhanced ESG Index	Sustainalytics
Stock exchange	SGX	Sustainability Indices	Sustainalytics
Stock exchange	SXI	Switzerland Sustainability 25	Sustainalytics

²⁵⁸ Declan Harty, 'Index Providers Race to Meet Booming Demand for ESG Data' (White paper, S&P Global, 25 February 2019), https://www.spglobal.com/marketintelligence/en/news-insights/trending/di5a_NO_q6j8iPKWBEEyqw2.

Ownership Type	Benchmark Administrator	SRI Benchmarks Offered	Data Sources
Data provider	MSCI	Index ESG Indices	MSCI's in house ESG Research team gathers the data that is used in the construction of ESG Ratings and MSCI's ESG Indices
Investment bank	Natixis	NXS Climate indices	Sustainalytics
Data provider	S&P Dow Jones Indices	ESG factor indices DJSI indices S&P ESG indices S&P fossil-free indices	Sustainalytics (for S&P 500 ESG, DJSI etc)
Data provider	Refinitiv	Thomson Reuters ESG select indices Various others	S-Network, Thomson Reuters data
Data provider	Morningstar	Global Sustainability Index Series Sustainability Dividend Yield Focus Index Series Minority Empowerment Index	Sustainalytics
Investment bank	Societe Generale	SGI ESG indices	
Data provider	Solactive	ESG Indices	Oekom, ISS, Sustainalytics
Stock exchange	Stoxx	ESG Indices ESG Leaders Indices ESG-X Indices Low Carbon Indices Climate Indices	Sustainalytics
Data provider	Sustainalytics	The Global Sustainability Signatories Index (GSLI) Jantzi Social Index (JSI)	Sustainalytics

Selection and Integration for Asset Owners

The BNP Paribas ESG Global Survey 2019²⁵⁹ noted that the key reasons for asset owners and managers to use sustainability data were improved long-term returns (52% of respondents), brand and reputation (47%) and decreased investment risk (37%).

For asset owners, the most important factors in selecting an ESG manager were ESG values/mission statement (27%), track record (46%) and ESG reporting capability (29%). The results for 2017 were 38%, 14% and 11% respectively, showing the evolution over the past two years as owners rely less on what managers claim to do and more on their performance and reporting as evidence of what they actually do.

²⁵⁹ BNP Paribas, 'The ESG Global Survey 2019: Asset Owners and Managers Determine Their ESG Integration Strategies' (White paper, BNP Paribas Securities Services, 2019), <https://securities.bnpparibas.com/files/live/sites/web/files/medias/documents/esg/esg-global-survey-en-2019.pdf>.

5.1.4. Feedback

Quality of ESG Products

In the survey conducted for this study, asset managers were asked where they found most value within ESG ratings reports. The responses are summarised in the pie chart below and show a clear preference for the underlying data and analysis rather than the ESG rating itself.

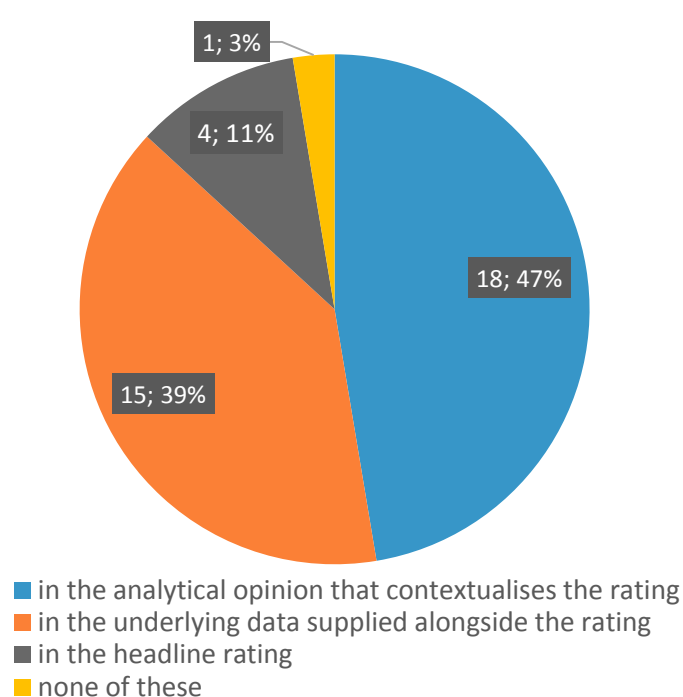


Figure 24: Responses to the Question: 'Within ESG Ratings Reports, Where is the Most Value for Investors?'

When asked if there was enough high-quality research to embed ESG into stock valuations, 68% of respondents stated there was not, and half of the respondents noted specific criticisms of sustainability-related research: 'ESG Research coming from external generalist providers is very poor', though there were also more nuanced responses: 'Qualitative research is good, too many quantitative services that have little value added or are distracting', 'Generally workable but room for improvement - not sufficiently articulate the nature/link between ESG and financial risks - not specific enough'.

When asked if there is enough variety of different types of products across the market, responses were mixed, with 59% stating that greater variety was favoured. In general, responses either pointed to a need for more, differentiated products to respond to the variable and changing asset manager needs; or responses noted that whilst variety is good, convergence and consolidation is needed amongst providers. One asset manager commented: 'no; too little differentiation; more innovation would help better data and tools'; whereas another noted: 'innovation in ESG data has been beneficial and brought new entrants like Carbon Delta and alternative data providers, which only help to provide more nuanced and sophisticated options for investors beyond a simple backward-looking

rating. Some consolidation of providers, especially on ESG ratings, would be beneficial if at the same time it resulted in higher quality and correlation.'

When asked if they welcome variety within each different product type, 90% of asset managers that responded were in favour of variety within product types. Respondents noted that they value specialisation, competition in the provider market was healthy, and greater diversity in insights was welcome as this enhances knowledge and serves different use cases. However, it was also noted by half the respondents, including many of those that valued variety, that there is a need for greater standardisation and transparency. One respondent noted that 'above all, we value specialization. Some ESG third parties excel in carbon assessment, others stand out when it comes to assessing carbon intensity or UNGC Compliance. But, to our knowledge, no single player has the ability to cover perfectly all dimensions. This is why, for us standardisation - in key areas - seems desirable but, there will still be the need for some healthy competition.' Another respondent noted that 'we welcome variety, as long as objectives are clearly stated. On ESG ratings whose aim is to provide a snapshot of a company's overall exposure to ESG risk, we believe more standardisation is needed as these metrics start having a material impact on the price of securities. Objectivity is more important to us than variety. We would like to understand the positive and negative sustainability contributions from companies, which should be consistent. Variety should not equal variability.'

Use of Sustainability-Related Products and Services by Asset Owners

As noted above, the survey conducted for this study showed that asset owners place greatest value on the ESG ratings and screening services, and the FTSE Russell 2019 survey of asset owners reported that the most common application of sustainability-related products and services across all asset owners is for negative screening. This has caused frustration among asset managers, concerned that asset owners are measuring their performance based on information supplied by sustainability-related product and service providers that has four fundamental problems.

- Firstly, it does not correspond to the sustainability strategy targeted by the asset managers, for example, were research providers focus on the strength of the sustainability-related processes of company, while asset managers are investing in companies whose products deliver against sustainability-related impacts.
- Secondly, it uses data that is inaccurate or incomplete, or weightings that are not effectively targeted at sustainability to make these assessments. One respondent commented that many asset owners only ask for the ESG scores from one data provider which is not considered an effective way of assessing the sustainability impact. Broader measures of sustainability would be required such as the portfolio's resilience to physical and transition risks surrounding a temperature increase, or alignment with the Paris Agreement, however this is expensive and is likely to require external resources and expertise, which most asset owners don't have.
- Thirdly, that the use of a single type of exposure analysis in portfolio analytics causes prejudice against investment strategies that may have more sustainable outcomes but take different approaches, such as impact investment or a focus on companies that enable the transition to a low carbon economy by providing goods and services such as renewable energy or electric vehicles. One asset manager questioned whether the goal was to achieve a positive and measurable real-world impact through the investment portfolio, or to ensure the manager is seen to take sustainability into consideration in making investment decisions. There is clearly a

gap between a strategy which only invests in high ESG scoring companies, and one which engages to build more sustainable companies over time.

- And finally, that sustainability-related providers are selling analytics services to asset owners for use assessing managers, which has the effect of effectively forcing asset managers to buy services that they do not want in order to justify their portfolios against sustainability-related ratings and analysis that they do not believe in.

One asset manager noted that most pension funds are small and lack resources to do these sorts of analysis, especially across asset categories and multiple managers. This encourages consolidation and the increased reliance on third party providers.

These considerations extend beyond their use by asset owners and include their application to portfolio analytics offered to retail investors by firms such as Morningstar. That said, the development of impact assessment is at an early stage and numerous different approaches are being tested.

Products from Sell-Side Brokers and Credit Research Agencies

In the survey conducted for this study, when asked an open question on what they most valued in sell-side broker research, asset managers were clear in their identification of the integrated nature of the research, combining ESG factors with financial analysis and company strategy. They also noted the forward-looking components of the research, looking at expected future trends, rather than relying on historic information. Asset managers attributed these advantages to the superior sector and company knowledge of sell-side analysts and their financial analytical skills.

Similar responses were received when asked about research from credit ratings agencies, with responses focused on integration and relevance to credit ratings.

Following on from this, asset managers were asked what they wanted to see more of from sell-side research providers and again over half the respondents were in favour of more integrated research, combining ESG and sustainability factors into company analysis and financial forecasts. There were also requests that they provide more data, metrics and thematic studies.

When asked, in an open question, what they would like to see more of from other sustainability-related rating, data and research providers, asset managers noted similar responses to those above, including greater inclusion of the actual products that a company makes in sustainability-related ratings and analysis; clarification of the terms ESG and sustainability; more analysis of sustainability-related themes, trends and technology; greater focus on research rather than scoring; and more focus on climate risks.

It is noted that the EC's consultation on the renewed sustainable finance strategy²⁶⁰ asked investment professionals several relevant questions. When asked 'how would you rate the comparability, quality and reliability of ESG data from sustainability providers currently available in the market?', the responses were overwhelmingly negative: of 58 responses, 5 replied 'very poor', 24 'poor', 18 'neutral' and 11 had no opinion. Similarly, when asked 'how would you rate the quality and relevance of ESG research material currently available in the market?', 4 replied 'very poor', 11 'poor', 29 'neutral' and 14

²⁶⁰ 'Consultation on the Renewed Sustainable Finance Strategy', Consultation, European Commission, https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy_en#contributions.

had no opinion. These responses are broadly consistent with the survey conducted for this study.

5.1.5. Correlation with Needs and Value Proposition

This section outlines the extent to which the sustainability-related products and services provided correspond to the needs of asset managers, owners and benchmark administrators. It also explores whether the variety of products and services offered in the market are seen to be of value and how users view standardisation and comparability.

What Is of Most Value?

In the survey conducted for this study, asset managers were asked an open question on the topic of which sustainability-related products and services corresponded with their needs most, and as such provided the most value. The 25 asset managers that responded ranked the products as follows:

1. Sustainable investment data
2. Fully integrated sustainable investment research
3. ESG ratings
4. Contextualizing sustainable investment research
5. Controversy alerts
6. Screening services
7. Single-issue focused ratings

60% of respondents placed sustainable investment data in either first or second place. This is consistent with asset managers' assertions that they mostly use the underlying data rather than ESG ratings per se, and that integrated research is valuable and that they would like to see more of it.

How ESG Products Could Better Meet Needs

When asked an open question on the topic of how sustainability-related products and services could better meet their needs, asset owners, managers and benchmark administrators responded with some clear themes. Users want:

- **More data-points and a focus on material issues;** for example, better integration of supply chain risks and increased use of alternative data that are not sourced from company reporting (e.g. satellite data, employee surveys, stakeholder perception).
- **Focus on products and performance, less on disclosure and policies;** for example, more research, deeper insights and objective ESG data, more focus on behaviour and outcomes rather than policies.
- **Focus on raw data, better data quality and consistency, not ratings;** for example, more data granularity so that users can integrate into their own financial analysis.

- **Stronger links to financial materiality**; for example, a better insight into the associated financial risks for companies and integration into investment decision-making.
- **Provision of time sensitive information and more innovation in provision of the data**; for example, including external data from independent sources, forward-looking data or impact-aligned information.

Problems Identified

In the survey conducted for this study, asset managers, asset owners and industry experts were asked to identify problems and biases with sustainability-related data, ratings and research through a series of open questions. The responses to these questions resulted in common and consistent themes emerging around the following, listed in order of number of respondents that noted concerns:

- **There is a lack transparency of the methodologies deployed and lack of understanding as to what the rating or data represents.** For example, it was noted that there is a lack of clarity on ESG ratings methodologies and what they are actually trying to measure, and concern expressed that some investors will take ESG ratings at face value, while most experienced investors are looking more closely at the underlying data and making their own judgements. The issue of transparency was noted by 10 respondents, with a further 3 noting concerns over lack of understanding.
- **There is a bias towards large companies given these have resources to collect and disclose data.** This was noted by 9 respondents and an additional 3 respondents commented that there was a lack of coverage of small companies.
- **The lack of comparability across ESG ratings and poor company peer comparisons** was noted by 6 and 3 respondents respectively.
- **The need for standardised reporting of sustainability-related data by companies so that investors and sustainability-related product and service providers can better assess performance** was noted by 7 respondents.
- **The lack of focus from data providers on material sustainability-related factors**, the need for greater coverage of specific issues such as climate risk, the need for greater relevance and the concern over too generic an approach was noted by 6 respondents.
- **The lack of communication and feedback between the various market participants**, for example between companies and investors, and between users and sustainability-related product and service providers was noted by 4 respondents.
- **The cost of obtaining the data**, making it inaccessible to smaller investors and other stakeholders, was noted by 3 respondents.
- Specifically, **questionnaires were considered to be an inefficient way to collect data** by 2 respondents.

5.2. Considerations and Opinions of Companies Assessed

This section of the study outlines the considerations and opinions of companies assessed by sustainability-related product and service providers around the following aspects.

- **Accuracy and reliability** considers whether sustainability-related products and services correctly reflect the sustainability performance of a company.
- **Engagement and error correction** looks at the type of interactions companies and sustainability-related product and service providers have, their frequency, the nature of these interactions and at which stages of the rating process companies are consulted and under which form. This aspect also considers whether the companies being assessed can correct what they identify as mistakes or errors in a report or appeal a rating assigned to the company.
- **Utility, alternatives and influence** examines whether sustainability-related products and services, such as ESG ratings, are a good way to assess or measure sustainability performance or whether there are other ways. This aspect also considers whether, and to what extent, a report or rating completed by a data provider or ESG rating agency influences company decision-making and the approach towards the management of sustainability risks and opportunities.
- **Company effort and costs** describes the costs for companies, and costs relative to their size, of replying to multiple individual requests for information (i.e. questionnaires, surveys), and costs for rated companies of getting feedback from sustainability-related product and service providers.

Information for this section comes from interviews and surveys conducted with companies. In their response, companies raised significant **concern over the lack of transparency of methodology and lack of sustainability-related product and service providers' understanding of a company context**. This aspect was ranked significantly higher than the next ranked concern, the time required to participate in the process, and the lowest ranked frustration of the four options to select, that being data inaccuracies.²⁶¹ In addition, when asked about other unprompted factors, 25% of respondents also referenced frustrations around communications with sustainability-related rating and data providers, either in relation to a lack of willingness to enter into a dialogue, or a feedback not being responded to.

These findings are reinforced by several reports from the literature review that relate to challenges associated with the process and overall reliability of sustainability-related ratings and research,^{262, 263, 264} including the AFEP report issued in 2019,²⁶⁵ a report

²⁶¹ In response to the question 'Which aspects of the sustainable investment and ESG process are most frustrating?' when asked to rank the factors, 64% and 62% of the 55 company respondents put either 'Lack of transparency into the process deployed to generate ratings' or 'Lack of contextual understanding by the individuals making analytical judgements' in first or second place respectively. 44% responded with 'Time demanded to participate in the process' and 31% with 'Inaccuracy of the data presented' in the top two categories. This difference is even more profound when including the responses from industry experts.

²⁶² Sarah Elena Windolph, 'Assessing Corporate Sustainability through Ratings: Challenges and Their Causes', *Journal of Environmental Sustainability* Volume 1, Issue 1 (2011): Article 5, <http://scholarworks.rit.edu/jes/vol1/iss1/5>, DOI: 10.14448/jes.01.000.5.

²⁶³ Sakis Kotsantonis and George Serafeim, 'Four Things No One Will Tell You About ESG Data', *Journal of Applied Corporate Finance*, Volume 31, Issue 2 (Spring 2019): pages 50-58, <https://ssrn.com/abstract=3604415>.

investigating the perspectives of sustainability professionals on ESG Ratings (*Rate the Raters 2018*²⁶⁶) based on roundtable discussions with 64 participants worldwide, of which the majority were company representatives; and a report from the American Council for Capital Formation (*Ratings that Don't Rate, July 2018*²⁶⁷) that highlights several similar concerns.

In summary, the survey of companies conducted for this study and the literature review indicate several perceived issues by companies that impact the reliability of sustainability-related products and services, and in particular ESG ratings. These indicate a range of quality, accuracy and comparability concerns across sustainability-related data, ratings and research products, as outlined below.

5.2.1. Methodology and Transparency

Most sustainability-related rating and data providers treat their methodologies as proprietary information (see Part IV of this report) and do not publish in-depth details of the methodology used.²⁶⁸ As noted above, the lack of transparency into the process deployed to generate ratings was the most common frustration cited by company respondents in the survey conducted for this study. A lack of transparency results in a deficiency of understanding of the rating methodology, and ultimately leads to companies to question the credibility of an ESG rating. This is in line with the Rate the Raters 2018 survey, which due to similar concerns by respondents, concluded that ESG ratings need to be fully transparent about methodology and how requests for information will be managed.²⁶⁹

5.2.2. Contextual Understanding

As noted above, in the survey conducted for this study, company respondents scored a 'lack of contextual understanding by the individuals making analytical judgements' second on the list of frustrations with sustainability rating and research providers. Two company respondents also noted, unprompted, specific concerns over analysts not having the expertise or experience required to evaluate ESG performance. This is consistent with the conclusions from the 2018 Rate the Raters report in that companies want to know experienced analysts are doing the evaluation and prefer a discussion with someone with industry-relevant experience, expressing concern that analysts undertaking the research and rating have little understanding of the business they are

²⁶⁴ D. Schoenmaker and W. Schramade, *Principles of Sustainable Finance, 1st edition* (Oxford University Press 2019).

²⁶⁵ Medef (French Business Confederation); Afep (Association of Large French Companies); Cliff (French association of Investor Relations); C3D (French Association of Sustainable Development and CSR Directors), 'French Initiative on the Relations between Companies and Non-Financial Rating Agencies: Summary of Results and Recommendations', (White paper, AFEP, February 2019), <https://afep.com/en/publications-en/french-initiative-on-the-relations-between-companies-and-non-financial-rating-agencies/>.

²⁶⁶ Christina Wong and Erika Petroy, *Rate the Raters 2020*, The SustainAbility Institute by ERM, March 2020, <https://sustainability.com/rate-the-raters/>.

²⁶⁷ ACCF, *Ratings That Don't Rate: The Subjective World of ESG Rating Agencies*, July 2018, https://accfcorp.gov/wp-content/uploads/2018/07/ACCF_RatingsESGReport.pdf.

²⁶⁸ State Street Global Advisors, *The ESG Data Challenge*, March 2019, <https://www.ssga.com/investment-topics/environmental-social-governance/2019/03/esg-data-challenge.pdf>.

²⁶⁹ Christina Wong, 'Rate the Raters 2018: Ratings Revisited' (White paper, The SustainAbility Institute by ERM, March 2018).

assessing".²⁷⁰ The IRRI Survey 2019 concludes that one of most common responses by listed companies when asked how ESG research providers can improve is to make 'a greater effort to understand the business context within with which [listed companies] operate'.²⁷¹

Sustainability issues are nuanced and complex, requiring context to fully express the performance implications. Reducing analysis of an issue to a single number or grade, let alone a single number across multiple issues, introduces judgement and bias that might not align with the end users' needs. Ratings that don't offer context risk not showing the full picture of company performance.²⁷²

5.2.3. Company Data Disclosure

As the majority of sustainability-related products and services rely on company disclosures of ESG management approach and performance (regulatory filings, company reports, etc.), the accuracy of the product or service will be impacted if the company disclosure is not accurate, complete and consistent. In the Rate the Rates 2019 Survey²⁷³, respondents were asked to rate the importance of a series of factors when determining the quality and accuracy of the evaluation. 95% of the 319 respondents agreed that the credibility of data sources is either the first or second (out of five) most important factor in determining the quality of a rating.

²⁷⁰ Ibid.

²⁷¹ Extel and SRI-Connect, Independent Research in Responsible Investment Survey 2019, SRI-Connect, 2019, p. 88.

²⁷² Christina Wong, 'Rate the Raters 2018: Ratings Revisited' (White paper, The SustainAbility Institute by ERM, March 2018).

²⁷³ Christina Wong, Aiste Brackley and Erika Petroy, *Rate the Raters 2019: Expert Views on ESG Ratings*, The SustainAbility Institute by ERM, February 2019.

Disclosure of information on sustainability-related issues by companies has been taking place for decades, and in recent years the volume of data disclosed has grown substantially, largely in response to increased stakeholder demands. The GRI database contains sustainability reports from 15 000 organisations, over 3 600 of which are based in the EU.²⁷⁴ One of the most comprehensive global surveys of corporate responsibility reporting by KPMG in 2017 found that three quarters of the 4 900 companies studied issued some form of sustainability report, and that the rate of company reporting in Europe in 2017 was 77%, and in Western Europe the rate is even higher at 82%.²⁷⁵ The KPMG study provides evidence that these high levels of reporting can be found across all industry sectors, with no sector having fewer than 60% of its companies issuing reports. The study also shows that the growth in companies publishing corporate responsibility reports has risen from 18% of the companies surveyed in 1996 to 75% in 2017 globally. Other surveys point similarly to a dramatic increase in ESG reporting. According to the Governance & Accountability Institute, 85% of the companies in the S&P 500 Index® published a sustainability report in 2017, up from 29% in 2011.²⁷⁶

A fundamental concern regarding disclosure is the completeness and consistency of the aforementioned disclosures. As noted by the Institute of International Finance in its June 2020 report, and various other studies, 'while ESG disclosure is improving, progress is uneven and the levels and quality of disclosure vary significantly across industries and geographies'.²⁷⁷ An examination of the sustainability reports of the 1 000 largest companies in Europe by the Alliance for Corporate Transparency in 2019 noted companies are weak in reporting quantitative goals, targets and data to track progress.²⁷⁸ Several ESG providers, and in fact companies, have noted that company disclosure across the market is not yet consistent nor complete.²⁷⁹ In a July 2019 paper by Kotsantonis and Serafeim²⁸⁰ analysed the more than 20 different ways companies report their employee health and safety data; the authors show how such inconsistencies lead to significantly different results when analysing the performance of the same group of companies.

²⁷⁴ 'GRI Sustainability Disclosure Database', Dashboard, Global Reporting Initiative, data correct as of October 2020, <https://database.globalreporting.org/>.

²⁷⁵ KPMG, *The Road Ahead: The KPMG Survey of Corporate Responsibility Reporting*, 2017, <https://home.kpmg/xx/en/home/insights/2017/10/the-kpmg-survey-of-corporate-responsibility-reporting-2017.html>.

²⁷⁶ Governance & Accountability (G&A) Institute, 'Flash Report: 85% of S&P 500 Index® Companies Publish Sustainability Reports in 2017' (White paper, G&A Institute, 20 March 2018), <https://www.ga-institute.com/press-releases/article/flash-report-85-of-sp-500-indexR-companies-publish-sustainability-reports-in-2017.html>.

²⁷⁷ Institute of International Finance, *Building a Global ESG Disclosure Framework: a Path Forward*, June 2020, page 13, [https://www.iif.com/Portals/0/Files/content/Regulatory/IIF%20Building%20a%20Global%20ESG%20Disclosure%20Framework-a%20Path%20Forward%20\(June%202020\)%20final.pdf](https://www.iif.com/Portals/0/Files/content/Regulatory/IIF%20Building%20a%20Global%20ESG%20Disclosure%20Framework-a%20Path%20Forward%20(June%202020)%20final.pdf). 'While ESG disclosure is improving, progress is uneven and the levels and quality of disclosure vary significantly across industries and geographies. This is discussed in various periodic studies, including by the TCFD Secretariat (June 2019), IIF (August 2019), EFRAG (February 2020), and IIF/EBF (January 2020)'.

²⁷⁸ The Alliance for Corporate Transparency, '2019 Research Report: An Analysis of the Sustainability Reports of 1 000 Companies Pursuant to the EU Non-Financial Reporting Directive' (Research paper, Frank Bold, 2019), https://allianceforcorporatetransparency.org/assets/2019_Research_Report%20_Alliance_for_Corporate_Transparency-7d9802a0c18c9f13017d686481bd2d6c6886fea6d9e9c7a5c3cfafea8a48b1c7.pdf.

²⁷⁹ Christina Wong, 'Rate the Raters 2018: Ratings Revisited' (White paper, The Sustainability Institute by ERM, March 2018).

²⁸⁰ Sakis Kotsantonis and George Serafeim, 'Four Things No One Will Tell You About ESG Data', *Journal of Applied Corporate Finance*, Volume 31, Issue 2 (Spring 2019): pages 50-58, available at SSRN, <https://ssrn.com/abstract=3604415> or <http://dx.doi.org/10.1111/jacf.1234>.

Where there are gaps or inconsistencies in ESG data provision by companies, ESG rating providers and data providers often need to apply assumptions, normalising factors or make estimates, adding to the subjective nature of ESG ratings and the potential for inaccuracies and lack of reliability. As reported by a company representative to the study survey, while companies may publish a lot of data, it often needs to be normalized by the ESG analyst since there are not standardized metrics.

There are multiple sustainability or ESG-related disclosure standards, guidelines and frameworks in place that could support consistency across corporate disclosure; however, there is not yet industry consensus on data reporting standards and metrics.²⁸¹ Both voluntary and regulatory company ESG disclosure requirements have and are still evolving rapidly and increasing in scope, which 'has resulted in a fragmented landscape, with multiple standards for similar ESG topics'.²⁸²

The EU NFRD²⁸³ requires large companies to publish regular reports on the social and environmental impacts of their activities, covering approximately 6 000 large companies across the EU. However the information required to be disclosed is limited to relevant company policies, principal risks and non-financial key performance indicators. The NFRD adopts a 'comply or explain' approach, demanding companies provide a clear and reasoned explanation for not providing the information required. The NFRD requires companies to disclose information 'to the extent necessary for an understanding of the development, performance, position and impact of [the company's] activities'. It does not require the use of a non-financial reporting standard or framework, nor does it impose detailed disclosure requirements, such as lists of indicators per sector. The most recent public consultation on a review of the NFRD was undertaken between February and June 2020, and the European Commission is due to adopt a proposal regarding the revision of the NFRD in the first quarter of 2021. The summary of the key messages from this public consultation includes:²⁸⁴

- The majority of respondents believe that the non-financial information reported by companies is deficient in terms of comparability (71% of respondents), reliability (60%) and relevance (57%). Looking just at respondents who identified themselves as users of non-financial information, those figures rise to 84%, 74% and 70% respectively.
- 64% of respondents who are or who represent preparers (reporting companies) stated that additional requests for non-financial information, for example from [ESG] rating providers or NGOs, are a significant problem, and 38% experience significant problems regarding the complexity of the current situation and deciding what information to report.

²⁸¹ Glenn W. Leaper, PhD., 'How Accurate is ESG Data?', *News, Nordsip*, 29 November 2018, <https://nordsip.com/2018/11/29/how-accurate-is-esg-data/>.

²⁸² Institute of International Finance, *Building a Global ESG Disclosure Framework: A Path Forward*, June 2020, [https://www.iif.com/Portals/0/Files/content/Regulatory/IIF%20Building%20a%20Global%20ESG%20Disclosure%20Framework-a%20Path%20Forward%20\(June%202020\)%20final.pdf](https://www.iif.com/Portals/0/Files/content/Regulatory/IIF%20Building%20a%20Global%20ESG%20Disclosure%20Framework-a%20Path%20Forward%20(June%202020)%20final.pdf).

²⁸³ Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (OJ L 330, 15.11.2014, p. 1–9), <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095>; and 'Non-financial Reporting,' Business, Economy, Euro: Company reporting and auditing: Company reporting, https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en.

²⁸⁴ Non-Financial Reporting Directive, 'Summary Report of the Public Consultation on the Review of the Non-Financial Reporting Directive 20' (White paper, EU Non-Financial Reporting Directive, February 2020 - 11 June 2020).

- Very strong support for a requirement on companies to use a common standard: 82% of respondents believe that a requirement on companies to use a common standard would address the identified problems.

For sustainability-related ratings and research to accurately and reliably reflect company performance and management approach, the source of the data used must be accurate. For sustainability-related ratings and rankings to effectively evaluate and compare the relative ESG performance and management approaches of companies, the source data should be consistent and comparable.

In addition, the practice of companies subjecting their ESG disclosure data and sustainability reports to a third-party audit process to verify data disclosures is inconsistent and in large part, not undertaken. Whilst some companies submit their sustainability report to a process of verification, audit or third-party review, this is voluntary – companies can choose whether or not to have their sustainability report (and ESG-related data disclosures) audited by a third party or not, and they can choose the degree to which they are subject to this level of scrutiny. The reliance on unaudited data illustrates a problem given the dependence of qualified rating results on data accuracy.

To improve the accuracy and reliability of company reported data, it is important to establish common expectations for reasonable assurance of sustainability-related disclosures. Assurance and verification should become easier if there is general alignment around a common ESG framework and some common metrics, which should increase transparency and familiarity in a way that increases overall confidence in companies' disclosures.²⁸⁵ These issues have been recognised by the EC and are expected to be addressed in the forthcoming revision to the NFRD.

5.2.4. Materiality

In the survey conducted for this survey, half the company respondents reported that specific topic areas included in the analysis undertaken were not relevant to their business or that sustainability-related rating and data providers cover issues that the companies do not believe are material to their business or to their sustainability performance. Company respondents commented that some sustainability-related ratings are 'not appropriate to reflect our sustainability challenges and strategies well' and that 'there is a discrepancy between the material assessment of the company and the rating agency'. This is especially the case when a company has a unique business model that may not fit neatly into one specific sector and when the sustainability-related rating and research provider's methodologies do not adequately take into account sector and subsector specific challenges. Additionally, sustainability-rating approaches cover a broad range of issues that by their very nature are not all going to be material to each company under assessment, even within the same industry sector.²⁸⁶ As highlighted in the recent report by Euromoney, commenting on the ESG-related products industry, 'there is still little consensus on what data is relevant and material'.²⁸⁷

²⁸⁵ Institute of International Finance, *Building a Global ESG Disclosure Framework: A Path Forward*, June 2020, [https://www.iif.com/Portals/0/Files/content/Regulatory/IIF%20Building%20a%20Global%20ESG%20Disclosure%20Framework-a%20Path%20Forward%20\(June%202020\)%20final.pdf](https://www.iif.com/Portals/0/Files/content/Regulatory/IIF%20Building%20a%20Global%20ESG%20Disclosure%20Framework-a%20Path%20Forward%20(June%202020)%20final.pdf).

²⁸⁶ Christina Wong, 'Rate the Raters 2018: Ratings Revisited' (White paper, The SustainAbility Institute by ERM, March 2018).

²⁸⁷ Lucy Fitzgeorge-Parker, 'ESG data – Mind the Gaps', *ESG, Euromoney*, 27 August 2020, <https://www.euromoney.com/article/b1n3cxdqbjmkl3/esg-data-mind-the-gaps>.

5.2.5. Direct Engagement with Companies

In responding to the survey conducted for this study, approximately 25% of companies raised concerns over a complete lack of direct engagement, or noted instances of sustainability-related rating and data providers not responding to feedback, including not correcting data errors or updating their analysis even after the company changes a procedure or performance disclosure.²⁸⁸ This lack of engagement may help a company get a better score if it knows how to work the rating system, or it may hurt companies that are not engaged appropriately.²⁸⁹ Either way, it brings into question the accuracy of ESG ratings.

The majority of company respondents to the IRRI Survey 2019 noted that the lack of engagement between companies and analysts was an area of concern.²⁹⁰ The priority for improvement noted by companies for sustainability-related rating and research providers is more direct communications.²⁹¹ This leads to greater focus on publicly available data, which can be critical if gaps appear that could be closed if communicated with the company.

5.2.6. Risk Identification and Future Performance

Both sustainability-related ratings and research focused on backwards-looking performance may not function effectively as warning signs for investors on future sustainability performance. Sustainability-related ratings and research that focus specifically on governance and management are potentially more accurate at predicting risk, but there are many and varied examples of where a company that has been subject to a sustainability-related controversy has a high ESG rating or is backed by sustainability funds.²⁹²

5.2.7. Engagement and Error Correction

This section considers interactions between companies and sustainability-related product and service providers, including the nature of the engagement, and at which stages of the sustainability-related rating, data and research process companies are consulted and in what form. It also considers whether the companies being assessed can correct what they identify as mistakes/errors in a report or appeal a rating assigned to the company.

The Nature and Frequency of Interactions between Companies and Sustainable Product and Service Providers

Sustainability-related product and service providers engage directly with companies to gather primary data and information, to facilitate data verification, and to allow for error correction and grievance resolution. **Engagement with companies can improve**

²⁸⁸ Project team interviews with and survey responses from 13 company respondents referenced a lack of or inadequate engagement with sustainability rating, research and data providers. A further two company representatives expressed frustrations with the ESG rating agency online company engagement platforms.

²⁸⁹ Christina Wong, 'Rate the Raters 2018: Ratings Revisited' (White paper, The Sustainability Institute by ERM, March 2018).

²⁹⁰ Extel and SRI-Connect, Independent Research in Responsible Investment Survey 2019, SRI-Connect, 2019, p. 105: 'Companies could not be clearer. The priority improvement that they want to see from research providers is more direct communications'.

²⁹¹ Extel and SRI-Connect, Independent Research in Responsible Investment Survey 2019, SRI-Connect, 2019.

²⁹² Attracta Mooney, 'Big Shareholder Dumps Boohoo over Working Condition Allegations', *Financial Times*, 10 July 2020, <https://www.ft.com/content/b6173433-853f-4b86-a50d-5f4933bc90c2>. See reference, for example.

overall disclosure through more meaningful dialogue and through opening up communication channels with companies about sustainability-related topics that matter to investors.

From the research undertaken for this study, it is noted that the majority of the leading sustainability-related rating and research providers share their rating and research results with the listed companies subject to the analysis before publishing them. However, as noted above, a common criticism by companies is that sustainability-related rating and research providers do not effectively engage with the companies they evaluate.²⁹³ The providers that do not engage only use publically available information and include Thomson Reuters, Arabesque, Covalence, RepRisk and CSRHub.²⁹⁴ Others, only engage at a minimal level to provide companies an opportunity to highlight other public information that the data provider should consider and to provide a mechanism for error correction. An example of this is FTSE Russell. Where such information found to highlight data that is more relevant to the assessment, it may then be incorporated into the final output.²⁹⁵

MSCI, Sustainalytics, ISS and Vigeo Eiris engage directly with companies and reportedly offer companies direct engagement with research analysts when requested. Sustainalytics has a dedicated Issuer Relations team that helps analysts manage their interaction with companies. Similarly, Vigeo Eiris provides a dedicated research manager to oversee each company rating. With MSCI, companies can provide comments and feedback at any time on an ongoing basis via the data providers' online communication portal and digitalized data verification form. ISS also operates a complementary data verification tool that is accessed through an online platform that receives submissions of corrected or updated data factors and can be used to provide feedback on the data used to determine the company score.²⁹⁶

Sustainalytics shares ESG analysis results with companies and solicits feedback prior to issue, enabling companies to review the accuracy and completeness of the data collected and provide any additional ESG information should they wish. If companies provide feedback within the time frame permitted, this information is reviewed and included in the analysis if considered appropriate by Sustainalytics. The use of company feedback is clearly documented in the sources list of the ESG Risk Rating Reports.²⁹⁷

MSCI informs companies ahead of their annual MSCI ESG Rating Action review via alert notification; however, it is not mandatory for companies to respond in advance of the assessment, and there is no deadline to respond. They do not provide draft data or

²⁹³ T. Elyse Douglas, Tracy Van Holt and Tensie Whelan, 'Responsible Investing: Guide to ESG Data Providers and Relevant Trends', *Journal of Environmental Investing* Volume 8, Number 1 (2017), <https://cbey.yale.edu/sites/default/files/Responsible%20Investing%20-%20Guide%20to%20ESG%20Data%20Providers%20and%20Relevant%20Trends.pdf>. Study and data from this article.

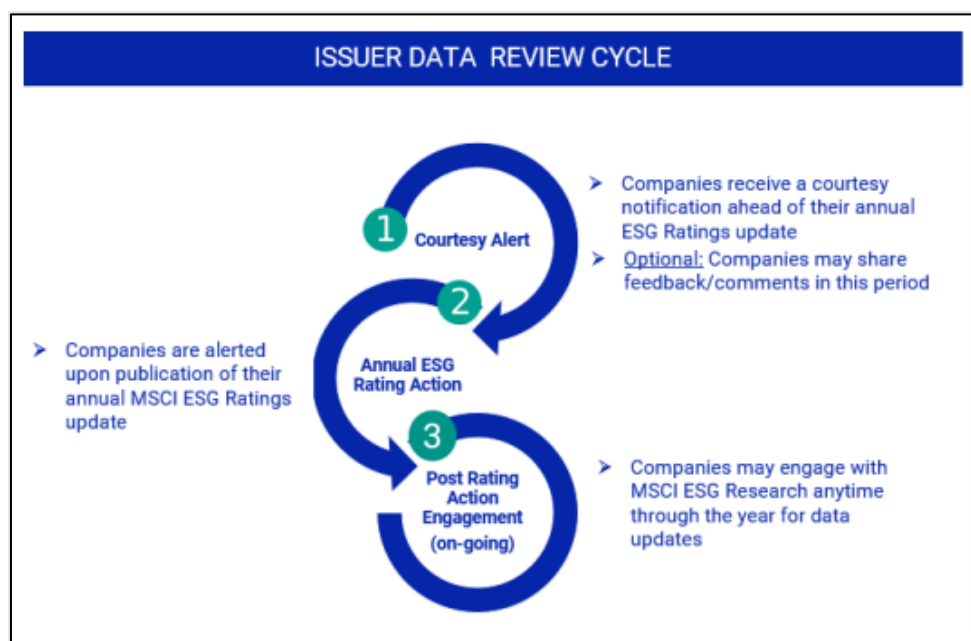
²⁹⁴ Project research team review of data provider methodologies.

²⁹⁵ FTSE Russell, *ESG Data and Ratings Recalculation Policy and Guidelines*, September 2020, https://research.ftserussell.com/products/downloads/Recalculation_Policy_and_Guidelines_ESG_Products.pdf?_ga=2.139169459.1063331407.1595845998-1858377300.1594811896.

²⁹⁶ E&S Disclosure Quality Score, ISS ESG: Ratings and Rankings, ISS, <https://www.issgovernance.com/esg/ratings/environmental-social-qualityscore/>.

²⁹⁷ Sustainalytics, *ESG Risk Ratings Issuer Backgrounder*, accessed July 2020, <https://connect.sustainalytics.com/sfs-esg-risk-ratings-issuer-backgrounder>.

reports prior to publication. Once the annual update is completed, they send companies another standard notification.²⁹⁸



Source: MSCI²⁹⁹

Figure 25: An Example Company Review Cycle Provided by a Sustainability-Related Rating and Data Provider

Vigeo Eiris' code of conduct includes a protocol on company relations, which outlines that during the rating process, companies are given the opportunity to provide relevant information for analysis, and to review and to comment upon a draft profile before it is delivered to clients of Vigeo Eiris.³⁰⁰ In addition, companies have the right to appeal their rating at three levels: first, to the analyst, then to the methodology department, and subsequently to the Scientific Committee.³⁰¹ All companies get two months' advance notice that Vigeo Eiris is rating them and full access to their methodology, its evolution over time and the specific process and timeframe of their rating. They will also receive technical support in using its platform to communicate with them.

²⁹⁸ 'MSCI, *MSCI ESG Ratings Methodology*, September 2019, <https://www.msci.com/documents/1296102/14524248/MSCI+ESG+Ratings+Methodology+-+Exec+Summary+2019.pdf/2dfcaeee-2c70-d10b-69c8-3058b14109e3?t=1571404887226> and <https://www.msci.com/documents/1296102/10259127/FAQ-For-Corporate-Issuers.pdf/ad19208c-d32c-7a7e-f90a-d48870b4d897>

²⁹⁹ 'MSCI, *FAQs for Corporate Issuers*, June 2020, <https://www.msci.com/documents/1296102/10259127/FAQ-For-Corporate-Issuers.pdf/ad19208c-d32c-7a7e-f90a-d48870b4d897>).

³⁰⁰ Vigeo Eiris, *Code of Conduct*, March 2018, <http://www.vigeo-eiris.com/wp-content/uploads/2018/07/Code-of-Conduct-Vigeo-Eiris-EN.pdf>.

³⁰¹ Vigeo Eiris, *12 Professional Commitments to the Companies and Other Issuers We Rate*, February 2019, http://www.vigeo-eiris.com/wp-content/uploads/2019/05/1901_12-Commitments-Vigeo-Eiris_EN-Final.pdf.

Company Views on the Form and Frequency of Engagements with Sustainability-Related Product and Service Providers

During the survey conducted for this study, one leading sustainability-related rating and data provider reported that overall approximately 20% of companies covered by the data and research providers actively participate in dialogue.³⁰² Another leading global sustainability-related rating and data provider reported that between 50% and 60% of large companies participate in dialogue, largely in response to providing the company with their ESG rating, but that the percentage of smaller companies was much lower. In the majority of cases, such engagement is via email or an online communications platform; however, when necessary or requested by the company, the ESG data provider will engage in meetings or conference calls directly with the company. It was also reported that to avoid any potential perception of undue influence or conflict of interest, company interactions are handled by and via a designated communications team.³⁰³ 85% of company responses to the study survey, indicated that they have contacted a sustainability-related rating provider to request that data on their company is corrected (see Error Correction sub-section below).

In the IRRI Survey 2019, companies reported that they placed the most importance on ESG-related engagements with analysts and portfolio managers that hold equity in their company, followed by those asset managers that are well-known for sustainable investment and then asset managers that hold equity in the company. After direct dialogue with asset managers, companies placed the most importance on engagements with analysts at independent ESG rating and research providers.³⁰⁴

The types interactions they valued the most are with those analysts, from either investment firms directly or ESG research providers, that³⁰⁵:

- understand the business context within which they operate;
- involve a dialogue on priorities for investors;
- focus on the material sustainability-related issues of relevance to their company; and
- provide guidance on industry good practice.

Overall, the interest of companies in engaging directly with investors on sustainability appears to be much more significant than the company interest in sustainability data providers. In the IRRI Survey 2019, 80% of the company respondents proactively target investors that have an interest in sustainability.³⁰⁶ Companies reported a wide range of ways in which they enter into dialogue with investors on sustainability-related

³⁰² Project team interviews with a leading global ESG ratings and data provider, 2020.

³⁰³ Project team interviews with a leading global ESG ratings and data provider, 2020.

³⁰⁴ Extel and SRI-Connect, Independent Research in Responsible Investment Survey 2019, SRI-Connect, 2019, p. 93.

³⁰⁵ These factors were mentioned in over 60% of the 38 company responses to the question in the study survey and in the IRRI Survey 2019, full report, p. 89, "Analysts that take the time to understand the business context within which companies operate and focus on material issues [and] those that make direct contact and those that give guidance on best industry practice are valued".

³⁰⁶ Ibid. The survey asked respondents to select one from five positive responses to the question 'What does your company do to manage its Sustainable and Responsible Investment / Corporate Governance contacts'. 80% of the 87 company representatives that responded selected one of the options as outlined, the other 20% selected either that they rely on brokers or they have no formal mechanism for recording such contacts.

matters, including through sustainability reports; annual sustainability results webinars for investors and data and research providers; meetings with these groups via roadshows or on a one-to-one basis; and hosting or presenting at a sustainability-related investor events.

As noted earlier in this section, the survey conducted for this study and literature review indicates that companies are keen to enter a dialogue with investors on sustainability-related issues, but the majority are equally frustrated with the outcome of dialogue with ESG research providers and analysts.³⁰⁷

In a recent series of articles published by *Environmental Finance*³⁰⁸, criticisms were raised over the inadequate communication by sustainability-related rating providers and the seemingly aimless vast amounts of data requested. This includes a quote from the ESG Investor Director at the large Spanish telecommunication multinational corporation: 'In my experience, the relationship with these [sustainability-related ratings providers] companies and indexes needs to change. A lot of the time the information gathering has not been done very well, and sometimes is not up to date. They send it to us [before publishing it], but the process by which they change the information is not open or done very well. It's quite difficult to talk to them. I understand that they want to remain objective. But what about the context behind the KPIs?'

5.2.8. Error Correction by Companies

There is substantial evidence from the survey conducted for this study, previous Rate the Raters surveys (2018, 2019 and 2020), and the IRRI Survey 2019 that shows:

- ESG data, ratings and research providers believe that they have adequate processes in place that enable companies to report and seek to correct any inaccurate information about them;
- a large proportion of companies have requested that data published on them is corrected;
- companies do not consider ESG data, ratings and research provider processes to correct errors or provide updated information are adequate and can get frustrated about poor ratings in particular, which they believe to be caused by inaccuracies in the data collection process (as outlined in the earlier section of this report);
- investors report frustrations with the quality of data provided alongside ratings.

The survey conducted for this study evidenced these conclusions through obtaining responses to key questions from each relevant stakeholder group. Nine out of the ten sustainability-related rating, data and research providers that responded to the direct question in the survey regarding the existence of a documented feedback process to challenge any data, ratings or research published responded positively. The only respondent that stated they did not have a feedback process in place was a small ESG research only provider. All the larger, well-established sustainability-related rating, data and research providers reported that they have a feedback process in place (see Part IV of this report for further details on methodologies).

³⁰⁷ The majority (*circa* 80%) of the company responses in the survey to the question of 'what aspects of your interactions with sustainable investors do you feel are least valuable to your company' made reference to some form of frustration with ESG data, rating and research agencies and analysts.

³⁰⁸ Peter Cripps, 'ESG Data Files – Part 3 Continued: ESG Rating Providers', *Analysis, Environmental Finance*, 29 July 2019, <https://www.environmental-finance.com/content/analysis/esg-data-files-part-3-continued-esg-rating-providers.html>.

The vast majority (85%) of the companies in the study survey reported having requested that a sustainability-related rating provider correct data published about them, and the majority (66%) have sought to challenge an ESG rating published about their company. Further feedback from company respondents revealed broad dissatisfaction with the process of challenging an ESG rating in particular. Of the companies that requested a rating or data correction, the most common outcome reported (by 44% of respondents) was that there was no response, errors are not corrected (or at best they are not corrected until the next reporting cycle) or that concerns are not addressed. The next most common outcome was that only sometimes errors are corrected or concerns addressed, and that this varies across sustainability-related rating and data providers. Only 20% of companies reported that when they had sought to correct a sustainability-related data error or address a concern with a sustainability-related rating, the issue had been addressed adequately by the provider. As noted by one company respondent³⁰⁹ 'it all depends on the agency and the relationship we have with them - some rating providers are adamant they will not change even when they admit their mistakes, others listen to our arguments and do not hesitate to change their rating or update their analysis. This varies greatly from one agency to another'. Another company representative added that the feedback received from ESG rating providers is always that the data will be corrected in the next assessment, and that sometimes this does not happen.³¹⁰

This finding from the study survey is corroborated by insight from Espeland and Sauder³¹¹, who raised the theory that while companies may exhibit considerable scepticism toward rankings, they nevertheless often respond to them. This stems from the belief that the decision-making of external stakeholders, in this case predominantly financial investors, is influenced by the evaluation output, in this case the ESG rating, research and ranking results. Expanding on this theory, rated entities may pay increased attention to the data and methodology underpinning ratings, and allocate greater resources to areas which are known to boost scores.³¹²

There are two recent high-profile public rebukes to ESG rating providers issued by companies. One is associated with the German mid-sized industrial image processing company, Isra Vision, which led to the first known legal case in Germany in which a company has challenged a sustainability rating.³¹³ When Isra Vision did not respond to a request by ISS ESG to participate in a sustainability review, it was assessed based on publicly available material and was subsequently rated with the lowest grade (D-). The company objected, taking the matter to a regional German court (Munich Regional Court (AZ: 3908981 / 19)), which determined in March 2020 that a mere unavailability of certain information does not justify a poor rating of a company.

³⁰⁹ Project team interviews with company respondents, including a quote from one representative from a leading French financial institution, 2020.

³¹⁰ Project team interviews with company respondents, including a quote from one representative from a leading global technology company based in Germany, 2020.

³¹¹ W. N. Espeland and M. Sauder, 'Rankings and Reactivity: How Public Measures Recreate Social Worlds', *American Journal of Sociology* Volume 113, Issue 1 (2007): pages 1–40.

³¹² E. Clementino and R. Perkins, 'How Do Companies Respond to Environmental, Social and Governance (ESG) ratings? Evidence from Italy', *Journal of Business Ethics* (2020), <https://link.springer.com/article/10.1007/s10551-020-04441-4#ref-CR46>.

³¹³ Jakob Blume, 'Ecoratings in Court: Isra Vision Obtains Ban against ISS ESG Agency', *Green Finance, Handelsblatt*, March 10, 2020, <https://www.handelsblatt.com/finanzen/steuern-recht/recht/green-finance-oekoratings-vor-gericht-isra-vision-erwirkt-verbot-gegen-agentur-iss-esg/25629486.html?ticket=ST-18081065-4OpdHMGgfb4seiUhKYf-ap2> and <https://www.globalelr.com/2020/04/esg-rating-on-trial-in-germany/>.

The second example concerns Barrick Gold Corporation, the second largest gold mining company in the world with headquarters in Canada. It is the most well-known company to publicly challenge an ESG rating from a ratings agency due to a series of errors it had identified that were not corrected, despite an extensive exchange of information.³¹⁴ Though it is hard to find anything as public as Barrick's rebuke to MSCI and the Isra Vision legal challenge of ISS, companies frequently comment, as noted above, that the existing processes and policies which ESG rating providers have in place to correct factual errors are inadequate and do not resolve their issues. Given the importance of sustainability-related ratings, further disputes in which companies refuse to accept a sustainability-related rating or ranking are likely to occur – especially if the basis for the evaluation is not clear or if there is a lack of cooperation between the company and the sustainability rating and ranking provider.

5.2.9. Utility, Alternatives and Influence

This section considers whether sustainability-related products and services, such as sustainability-related ratings, are considered a good way to assess and measure sustainability performance or whether there are other ways. This section also discusses to what extent a report or rating completed by a sustainability-related rating, data and research provider influences company decision-making and the approach towards the management of sustainability risks and opportunities.

Utility

The utility of a sustainability-related product or service is dependent upon the user's objectives and desired outcomes from use of these products and services. The main target market of investors and asset managers use these products and services to inform investment decision-making, portfolio creation or to assess a given portfolio or set of investments across a set of sustainability criteria, such as carbon emissions. Companies, on the other hand, describe utilising these products to evaluate current environmental or sustainability performance, benchmark themselves against peers, identify gaps in their own strategy and engage with stakeholders among other purposes. An external party evaluation of and view on a company's sustainability performance in comparison to competitors and peers can be a powerful incentive for taking action and steps towards improvement. Further, the sustainability-related ratings and rankings can provide a valid source of information to help internal advocates to promote change, particularly with senior executives, as well as highlight areas of particular weakness and strength. In addition, some sustainability-related product and service providers provide education and training for companies on issues, such as sustainability-related research methodologies and investing, and the ways in which providers see investors addressing sustainability issues in their investment processes.³¹⁵

In addition, many large companies self-promote the fact that they feature in financial market ESG indices, ratings and other sustainability-related products and services through disclosing these on their websites.³¹⁶ OMV, as an example, also makes

³¹⁴ Barrick, *Response to MSCI ESG Rating Report*, September 2018, <https://barrick.q4cdn.com/788666289/files/sustainability/Response-to-MSCI-ESG-Rating-Report.pdf>.

³¹⁵ 'MSCI, *FAQs for Corporate Issuers*, June 2020, <https://www.msci.com/documents/1296102/10259127/FAQ-For-Corporate-Issuers.pdf/ad19208c-d32c-7a7e-f90a-d48870b4d897>. See, for example, the MSCI company educational activities, Section 3.10.

³¹⁶ 'ESG Indices and Ratings 2019,' ENI, <https://www.eni.com/en-IT/investors/sustainability-indexes.html>; 'ESG Rating & Indices', ENEL, <https://www.enel.com/investors/sustainability/esg-rating-indices>;

reference to the importance they place on working with ESG rating agencies, and that this 'helps us drive the sustainability agenda forward and make continuous improvements'.³¹⁷

The utility of these products then depends on a sustainability-related product or service provider's ability to evaluate the users' desired criteria. As noted previously, the majority of companies find sustainability products and ratings reflect the company sustainability exposures and practices only to a moderate degree. Wider concerns around accuracy and reliability have been outlined in the previous section indicating that the usefulness of ratings for evaluating ESG performance has limits.

A recent Harvard Business Review³¹⁸ working paper surmised that ESG ratings are not a reliable tool for evaluating the environmental impact of a company. The paper analysed the correlation between the environmental impacts of companies with various environmental ratings across industries. The authors developed a methodology for measuring an organization's environmental impact, or 'environmental intensity', from operations utilizing several established academic resources and data sourced from Bloomberg and Thomson Reuters. The calculated environmental intensity was then compared with established environmental ratings from data providers, including MSCI, RobecoSAM and Sustainalytics. The correlation was low, albeit significant, ranging from 0.15 to 0.26. The authors do note that this low correlation is not unexpected as ratings do not necessarily measure environmental impact, and are intended to integrate signals of how well a company is managing environmental-related risks and opportunities. The authors conclude that although ratings may provide insights into an organisations management of environmental risks and opportunities, they are less likely to provide insights into the actual environmental impact, and should be used with caution in this regard.³¹⁹

The Rate the Raters 2019 survey of 319 sustainability professionals further defines the company perspective on the comparative usefulness of specific sustainability-related ratings schemes. In this survey 'usefulness', which was defined as how useful ESG ratings are and specified what use the ESG ratings were put to, was varied with four ratings considered by about half of respondents to be useful – the providers of these ratings being RobecoSAM, CDP, Sustainalytics and MSCI.³²⁰

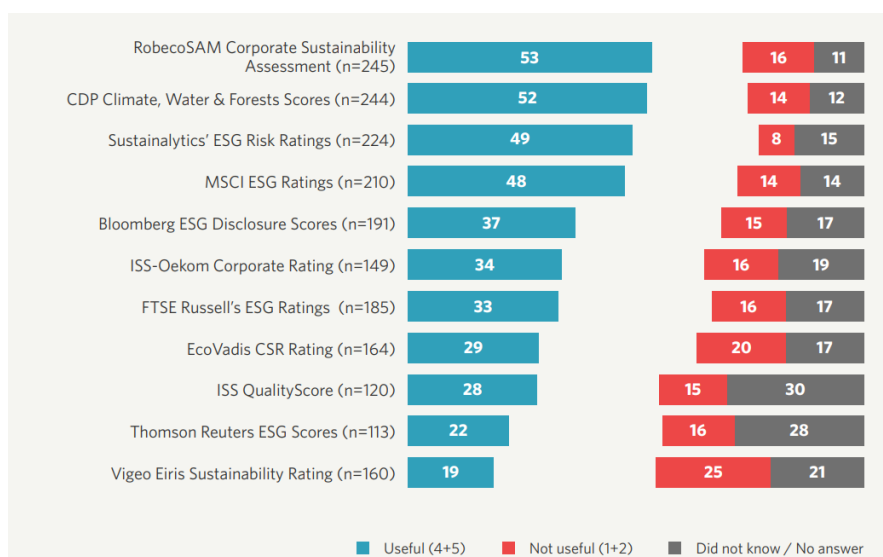
'Environmental, Social, & Governance Benchmarking', Sustainability: Governance, Severn Trent Plc, <https://www.severntrent.com/sustainability-strategy/governance/benchmarking/>; 'ESG Ratings', Sustainability & ESG Reports and Ratings, Orsted, <https://orsted.com/en/sustainability/esg-ratings-and-reporting/esg-ratings>; 'Ratings and Indices', Sustainability: General Information, Continental, <https://www.continental.com/en/sustainability/general-information/ratings-and-indices-63244>; and 'SRI Ratings and Ethical Indexes', AXA, <https://www.axa.com/en/investor/sri-ratings-ethical-indexes>.

³¹⁷ 'Sustainability Reporting and Performance', Sustainability, OMV, <https://www.omv.com/en/sustainability-reporting-and-performance>. See OMV website: "Furthermore, at OMV, we place great importance in working with ESG rating agencies (ESG: Environmental and Social Governance). This helps us drive the sustainability agenda forward and make continuous improvements."

³¹⁸ David Freiberg, DG Park, George Serafeim and T. Robert Zochowski, 'Corporate Environmental Impact: Measurement, Data and Information' (White paper, Harvard Business School Working Paper, No. 20-098, March 2020 (Revised June 2020)).

³¹⁹ Ibid.

³²⁰ Christina Wong, Aiste Brackley, and Erika Petroy, *Rate the Raters 2019: Expert Views on ESG Ratings*, The Sustainability Institute by ERM, February 2019.



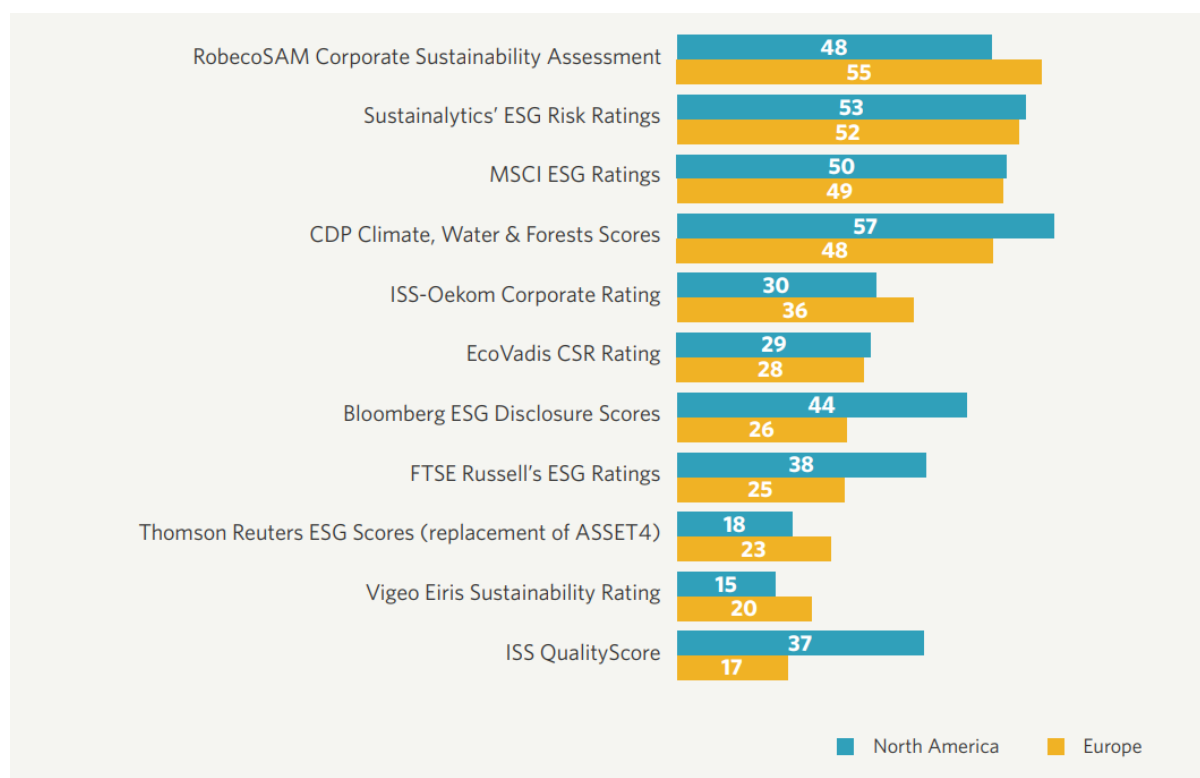
Source: RTR 2019. Source: RTR 2019

Note: When asked to use a 5-point scale where 1 is not useful at all and 5 is very useful, bars indicate percent of respondents who viewed the rating as either high usefulness (4+5) or not useful (1+2).

Figure 26: The Percent of Sustainability Professionals Evaluating an ESG Rating Provider as Useful or Not Useful

Breaking the results down further to reveal only company respondent perspectives, the same four providers, RobecoSAM (52%), Sustainalytics (49%), MSCI (49%) and CDP (49%), were also rated as useful by about half of all respondents (percentages indicate respondents who selected a rating as high usefulness (4+5)).

The Rate the Ratings survey in 2019 also revealed regional differences in the perceived usefulness of sustainability-related ratings. North America respondents consider sustainability-related ratings as more useful than European respondents, especially CDP, Bloomberg, FTSE Russell and ISS QualityScore, while European respondents have more favourable views of RobecoSAM, ISS-Oekom, Thomson Reuters and Vigeo Eiris.



Source: RTR 2019. Note: Bars indicate percentage of respondents who selected a rating as high usefulness (4+5)

Figure 27: European and North American Perspectives on ESG Ratings Usefulness

Alternatives

In response to an open question, companies surveyed for this study³²¹ indicated two main alternative ways for investors and stakeholders to evaluate company sustainability performance: 1) through direct engagement and dialogue with companies and 2) through utilizing the information and data that companies disclose through publicly available reports. Direct engagement with companies may be in the form of interviews with the company in question (such as through Investor Relations, Sustainability teams or senior executives); through industry or sector associations; and attendance on company webinars or at ESG roadshows. Using publicly disclosed information in the form of company websites or through regulatory and voluntary reporting, such as sustainability, TCFD, NFRD. Integrated reports and annual reports were also recommended.

Schoenmaker and Schramade (2019)³²² present alternative measures of non-financial performance including:

³²¹ Project team interviews and survey responses, 2020.

³²² D. Schoenmaker and W. Schramade, *Principles of Sustainable Finance, 1st edition*, (Oxford University Press, 20 February 2019): pages 197–200.

- Performance on selected specific key performance indicators, such as climate-related or safety-related performance metrics;
- externality valuation methods, through an analysis of more holistic externalities, often involving monetizing and balancing financial and non-financial values;
- contributions to global sustainability goals, through performance against the UN SDGs.

These alternatives present advantages, such as being more relevant or facilitating better decision-making, but also each has drawbacks, such as limitations on one's ability to analyse performance and to compare across industry sectors.

Influence

The survey, interviews and literature review conducted for this study indicate that sustainability-related ratings, data and research completed by a provider or rating agency can influence company decision-making and the approach associated with the management of sustainability risks and opportunities.

An Italian study exploring how companies respond to ESG ratings³²³ posited a fourfold typology for how companies respond specifically to ESG ratings. The first, entitled 'passive conformity', describes companies that respond to ESG ratings largely by changing external disclosure and reporting. The second, 'active conformity,' are those that actively respond to ESG ratings, aiming to improve ratings through reporting and also by instigating company changes to corporate social responsibility (CSR)-related processes and practices. The third, 'passive resistance' describes companies that choose to ignore ratings, and the fourth, 'active resistance' are those that actively aim to minimize the impact of ratings. The study included interviews with 18 companies where over half self-identified as 'active conformers'.

We expand on the two principal concepts of active conformers and passive conformers below.

Positive Drivers That Influence Decision-Making and Performance (Active / Passive conformers)

The companies in the Clementio 2020 study within the active conformity category noted that ESG ratings had driven several actions within the company: enhanced reporting, internal organisational change, setting incentives, raised awareness, learning, benchmarking and policy implementation.³²⁴ Interviewees from the Italian study acknowledged that ESG ratings lead to the adoption of better sustainability (or corporate social responsibility (CSR)) practices. While the act of being rated did alter company behaviours in ways that can be interpreted as conformity to the criteria of respective ratings, the study concluded that the influence of ESG ratings is more evident in driving company action on social and environmental reporting and disclosure. All companies in the study, except those taking a passive resistance approach, described consolidating internal data collection processes in order to respond to ESG rating questionnaires and ESG data evaluation. In other words, companies specifically adapt their disclosures to meet the needs of ESG rating and data provider requirements. Company respondents in

³²³ E. Clementino and R. Perkins, 'How Do Companies Respond to Environmental, Social and Governance (ESG) Ratings? Evidence from Italy', *Journal of Business Ethics* (2020), <https://link.springer.com/article/10.1007/s10551-020-04441-4#ref-CR46>.

³²⁴ Ibid.

the study also suggested that there were other factors besides ratings that influence sustainability reporting, including voluntary standards (such as the GRI and the UN Global Compact Principles) and regulatory requirements (such as the EU Directive on disclosure of non-financial and diversity information).

The Clementio 2020 study further concluded that ESG ratings can, in certain cases, contribute to the incorporation of new CSR issues into a company's policy, practice and strategy; provoke internal organisational change required to more effectively operationalise business ethics and sustainability; and elevate the strategic importance of addressing ESG issues. However, the findings also urge caution regarding the degree to which such dynamics unequivocally translate into substantive improvements in sustainability performance. The study noted the following:

Even amongst those companies which adjusted to ratings, the main response was through actions centred on improved disclosures, with most respondents denying a significant impact on underlying E, S or G aspects. Indeed, the requirements of sustainability rating providers are only one factor influencing corporations' CSR policies, practices and performances, and rarely the most important. In drawing these conclusions, our paper provides support to more critical accounts of informational governance, which challenge the idea that neoliberal practices of disclosure are sufficient to bring about significant changes in CSR-related behaviour.

As outlined in the chart below, the survey conducted for this study reveals that over half the company respondents (52%) believe that sustainability-related product and service providers 'have had a significant impact on both the way that we manage and communicate on sustainability exposures'.³²⁵ A further 28% reported limited impact on the management of sustainability issues but a significant impact on the way that they are communicated. Only one in five companies reported that there was no or very little impact, or none of the options provided.

³²⁵ Analysis of the 56 company responses from the survey conducted for this study to the question: Which statement best reflects your opinion of investor influence on your approach to managing and communicating your approach to sustainability exposures and opportunities?

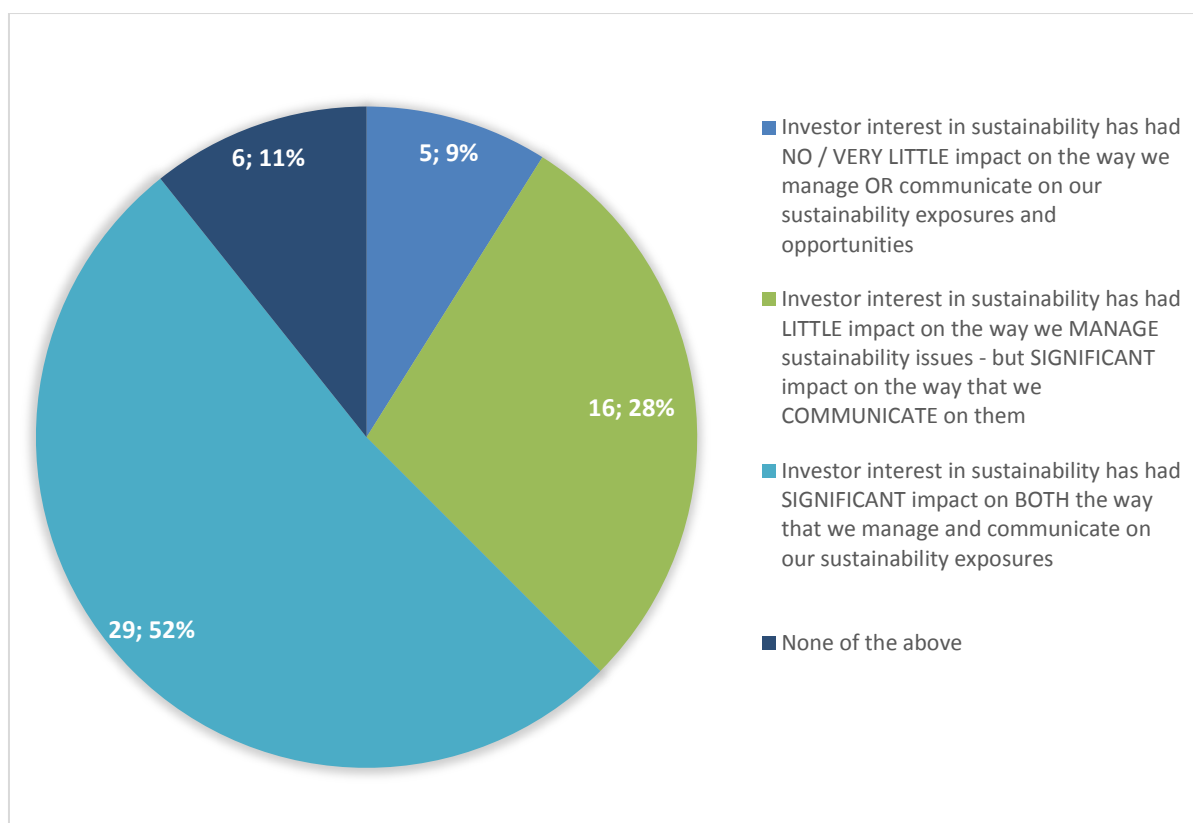


Figure 28: How Investor Influence May Affect a Company's Approach to Managing and Communicating Sustainability Exposures and Opportunities

The survey conducted for this study also asked respondents about positive impacts associated with investor interest in sustainability data, ratings and research in relation to the company's approach to managing sustainability-related exposures and opportunities. Responses to this question provided the following insights, in order of frequency of response (including percentage of respondents that indicated each and the main positive impact):³²⁶

- Builds reputation and relationship with current and potential investors and helps build a better understanding of investor and other stakeholder views (24%);
- Improves disclosure, informs materiality analysis and indicates potential future material issues (24%);
- Influences senior executives and provides motivation to perform better (16%);
- Identifies areas for improvement in performance or management of risks (13 %);
- Enables benchmarking with peers (11%).

³²⁶ Summary of responses from the survey conducted for this study that covered 45 company representatives who were interviewed or who gave written responses to the question: What positive impact (if any) does the publication of sustainability data, ratings and research to investors have on your company's approach to managing sustainability-related exposures and opportunities?

A further 11% stated that there was no tangible positive impact associated with sustainability data, ratings and research to investors in terms of the company approach to managing sustainability-related exposures and opportunities.

Given the level of frustration expressed by companies with sustainability-related rating and research providers described above, these survey results indicate that although there are a number of issues voiced by companies with rating and research providers, the vast majority of companies still find their work and the resulting output of benefit.

Additionally, when asked an open question about any negative impacts associated with sustainability data, ratings and research to investors in relation to the company's approach to managing sustainability-related exposures and opportunities, 53% of the company representatives responded that there were none, with the remaining referencing the misrepresentation of performance or risk (34%) or a waste of time and resources needed to respond (13%).³²⁷

Negative Drivers That Influence Decision-Making and Performance

Several studies examining how companies respond to sustainability-related products, such as indices and ratings, conclude that the threat of exclusion from an index, or a poor rating, can drive company action to improve performance. Slager and Chapple (2016)³²⁸ conducted a statistical analysis of archives of the FTSE4Good index. Their research found that companies that may be excluded from the index following the issuance of new criteria were more likely to improve their performance in the following year, as were firms that actively advertised the fact that they were part of the index. Chelli and Gendron (2013)³²⁹ highlight how ratings 'promote a regime of exclusion and inclusion', creating reward systems for high-performance companies (e.g. by including them in a select index), whilst sanctioning firms scoring less well (e.g. by excluding them). Early studies, such as Chatterji and Toffel (2010)³³⁰, take a wider perspective, providing large sample evidence that US companies that received low scores on environmental ratings improved their performance (as measured by company-wide toxic pollution) more than their peers who never rated or that received a more positive evaluation. Adopting a similar approach, Sharkey and Bromley (2014)³³¹ investigate the indirect effects of ESG ratings, showing a correlation between number of peers that were rated and amount of pollution reduction (only for those companies that were also rated).

Further insight can be gained from the Rate the Raters 2018 report. This noted that ESG ratings influence several other areas of company-related activity. ESG ratings can support internal education and engagement as crafting responses to questionnaires drives cross-disciplinary efforts and also drives awareness of sustainability issues.

³²⁷ Summary of responses from the survey that covered 38 company representatives who were interviewed or who gave written responses to the question: What negative impact (if any) does the publication of sustainability data, ratings and research to investors have on your company's approach to managing sustainability-related exposures and opportunities?

³²⁸ R. Slager and W. Chapple, 'Carrot and Stick? The Role of Financial Market Intermediaries in Corporate Social Performance,' *Business & Society*, Volume 55, Issue 3 (2016): pages 398-426, <https://doi.org/10.1177/0007650315575291>.

³²⁹ Mohamed Chelli and Yves Gendron, 'Sustainability Ratings and the Disciplinary Power of the Ideology of Numbers', *Journal of Business Ethics*, Volume 112 (2013), 10.1007/s10551-012-1252-3.

³³⁰ Aaron K. Chatterji and Michael W. Toffel, 'How Firms Respond to Being Rated', *Strategic Management Journal* Volume 31.9 (September 2010): pages 917-945, <https://doi.org/10.1002/smj.840>.

³³¹ Amanda Sharkey and Patricia Bromley, 'Can Ratings Have Indirect Effects? Evidence from the Organizational Response to Peers' Environmental Ratings', *American Sociological Review* Volume 80 (2014): pages 63-91, <https://doi.org/10.1177/0003122414559043>.

Furthermore, a poor rating or ranking can also attract the attention of management and drive action and change. For example, one company noted that it was about to lose a point on the Dow Jones Sustainability Indices assessment based on a response to transgender rights. Within a week that company had a new policy on the issue in order to maintain its score. Companies also noted that they use ratings to help benchmark performance against peers and identify emerging issues to watch, depending on how rating questions and topics evolve.

In the Rate the Raters 2019 Survey, in responding to open-ended questions, company respondents 'most often mentioned using ESG ratings for internal assessments and strategy, to help inform what data to disclose, identify trends and support stakeholder engagement'.³³² ESG ratings were also reported to be used to identify areas of strength and opportunities for improvement or even to help inform strategic priorities. This reinforces findings from the Clementino 2020 study that ESG ratings influence how companies collect, compile and disclose information, and that they may also be used for benchmarking, to identify trends, and to drive engagement with internal stakeholders on ESG-related issues (for example, senior management, specific internal functions, departments or staff) and external stakeholders, including investors.

Whether improved disclosure, reporting and 'performance' on an index or rating drives greater sustainability outcomes for the firm has been questioned. Companies note that it can be easy to improve rating scores without doing anything of value in terms of ESG performance.³³³ In one example a company representative recalled a rating increasing by 10 points for employee training simply because the company in question sent a link to several employees, with the company questioning if that action really changed anything in the business.

As concluded in the Clementino 2020 study³³⁴, the observation that companies are predominantly influenced by ESG ratings to make changes to ESG disclosures is important because it points to the possibility that ESG ratings may lead organisations to gaming-type behaviour. The same study notes that while some companies had accompanied improved disclosures with substantive changes in sustainability-related policy and practice, for others this was decoupled from the reality of their sustainability performance, and that enhancing disclosures is also far less costly, time consuming and disruptive than making substantive changes in sustainability-related organisational practices.

The term *evaluatory trap* describes an instance where companies are more concerned about how they perform based on the criteria rather than genuinely thinking about what they can do to further improve their sustainability efforts. As ESG issues gain relevance, companies tend to make their disclosure more voluminous. Results from their study show that if a company's use of positive sentiment terms in their language leads to higher scorings, then the rating also tends to rise as the length and level of complexity of the sustainability disclosures increase. These findings indicate that sustainable products and services tend to drive greater disclosure, more than improved sustainability performance.

³³² Christina Wong, Aiste Brackley, and Erika Petroy, *Rate the Raters 2019: Expert Views on ESG Ratings*, The SustainAbility Institute by ERM, February 2019.

³³³ Christina Wong, 'Rate the Raters 2018: Ratings Revisited' (White paper, The SustainAbility Institute by ERM, March 2018).

³³⁴ E. Clementino and R. Perkins, 'How Do Companies Respond to Environmental, Social and Governance (ESG) Ratings? Evidence from Italy', *Journal of Business Ethics* (2020), <https://doi.org/10.1007/s10551-020-04441-4>.

5.3. Company Effort and Costs

This section considers the costs for companies, and costs relative to their size, of replying to multiple individual requests for information (i.e. questionnaires, surveys), and costs for rated companies of getting feedback from sustainability-related product and service providers.

For companies, addressing multiple individual requests for data and information on sustainability-related performance from stakeholders can be time intensive and costly. There are a variety of stakeholders that request such information, including, but not necessarily limited to, business-to-business clients or customers, regulators, non-governmental organisations, industry associations, the media, local communities, research bodies, shareholders, investors and sustainability ratings, ranking and benchmarking organisations. The considerable growth over the last decade in the prevalence of sustainability-related disclosures by companies (see section: Company Data Disclosure) has arisen because of the increased demand by stakeholders for sustainability-related information, and the expectation that it will be provided. It is important to note that investor and sustainability data, ratings and ranking providers form only part of this demand.

Participation in sustainability-related ratings and rankings requires extensive data collection, some of which is taken from company disclosures (see Part III) and may also require interaction with the sustainability data or research provider in the form of responding to questionnaires, holding meetings or teleconferences, or making presentations. Drempetic noted that this circumstance gives an advantage to larger firms with more or better resources to provide data necessary for participating in ESG ratings.³³⁵

Research by *Environmental Finance* states that 'companies complain about the growing number of questionnaires they are being asked to respond to, and the confusing array of standards they are being asked to meet, including the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC) and the TCFD'³³⁶. The author also references a large multinational mining company that has decided to reduce the number of questionnaires it responds to, including stopping reporting to the CDP, choosing to disclose data on its website, which it says meets the standards of the GRI, and cover a lot of the questions raised by the CDP. There is a further reference to a multinational telecommunications company headquartered in Spain that reports 'we have hundreds of requests for questionnaires ... we are trying to reduce the number of questionnaires we answer, looking for the ones that really influence investors'. The same company is reported as having recently decided to stop responding to the survey for the Dow Jones Sustainability Index due to the huge amount of work that this involves, and that there can be up to 25 people working on sustainability disclosures, particularly when the company is putting together its 400-page annual sustainability report.

³³⁵ Samuel Drempetic, Christian Klein and Bernhard Zwergel, 'The Influence of Firm Size on the ESG Score: Corporate Sustainability Ratings Under Review', *Journal of Business Ethics* (2019), <https://doi.org/10.1007/s10551-019-04164-1>.

³³⁶ Peter Cripps, 'ESG Data Files - part one, continued: reported data,' *Analysis*, *Environmental Finance*, 3 July 2019, <https://www.environmental-finance.com/content/analysis/the-esg-data-files-part-two-reported-data.html>.

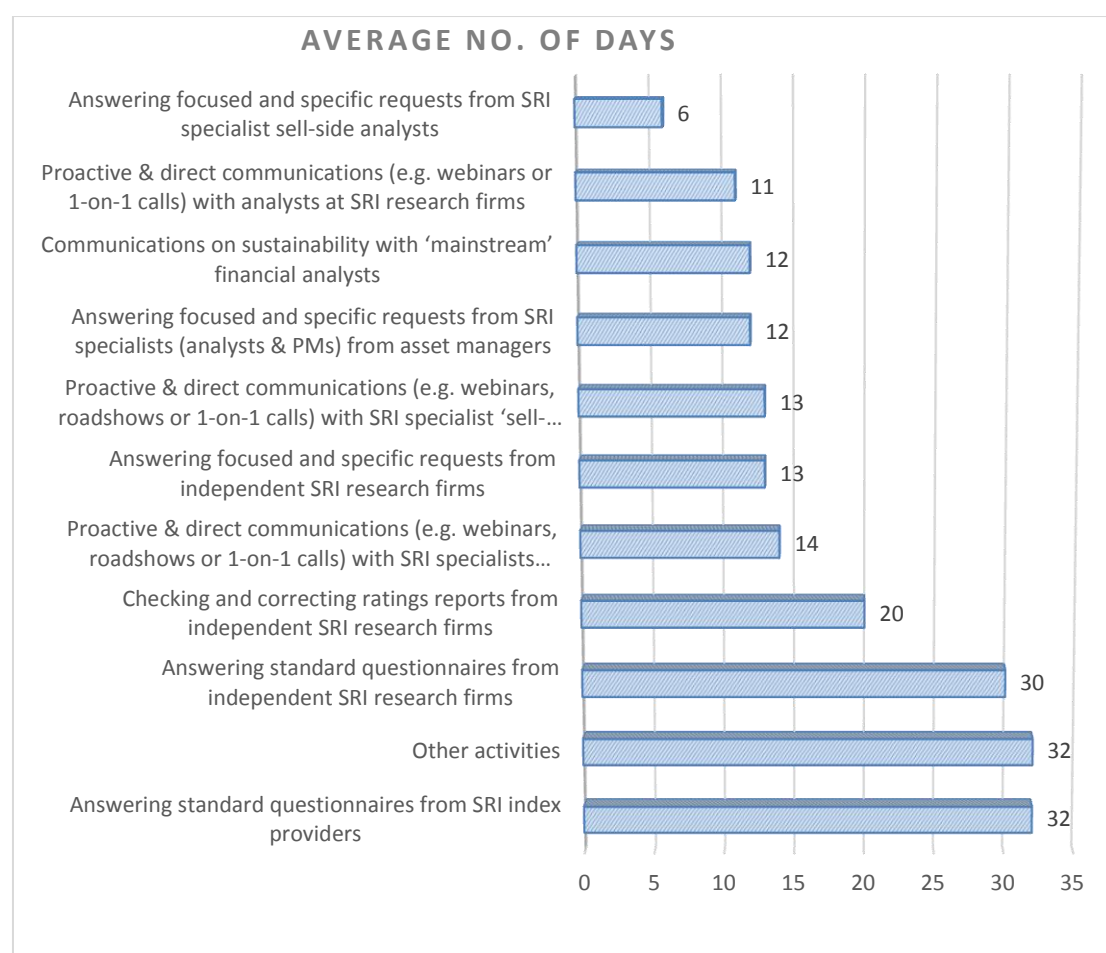
It is often argued that responding to requests from sustainability-related rating and data providers is time intensive for companies, and hence costly,³³⁷ however, there is very little current and reliable research into company investment of time and resources associated with these activities. One source quotes the time needed to respond to sustainability ratings and ranking providers enquires amounting to approximately half a full-time equivalent employee per company, per year.³³⁸

The IRRI Survey 2019³³⁹ asked company respondents to estimate how much time the company spent on different sustainable and responsible investment communication activities on average in a year, not including producing the company sustainability report or other general sustainability-related disclosures (that serve the needs of a wider group of stakeholders). Figure 29 below illustrates time distribution across the different kind of activities.

³³⁷ Stephanie Mooji, *The ESG Rating and Ranking Industry; Vice or Virtue in the Adoption of Responsible Investment?*, 11 April 2017, SSRN, <https://ssrn.com/abstract=2960869> or <http://dx.doi.org/10.2139/ssrn.2960869>. See Mooij's article, for example. Based on interviews with 20 companies in the Netherlands, Germany and the UK, companies receive approximately 30 requests a year on average from ESG rating and ranking providers.

³³⁸ E. Clementino and R. Perkins, 'How Do Companies Respond to Environmental, Social and Governance (ESG) ratings? Evidence from Italy', *Journal of Business Ethics* (2020); and Rolf Häßler, *The Impact of SRI – An Empirical Analysis of the Impact of Socially Responsible Investments on Companies*, oekom research, 2013.

³³⁹ Extel and SRI-Connect, *Independent Research in Responsible Investment Survey 2019*, SRI-Connect, 2019.



Source: The IRR Survey 2019

Figure 29: The Average Number of Days Companies Reported Spending on Different ESG Communication Activities in 2018

Regarding the time distribution related to sustainability products and ratings, the IRR Survey 2019³⁴⁰ revealed that completing standardized questionnaires from sustainability-related rating providers and index providers is the most time-consuming activity for companies. This reflects the same result as in prior years. Much less time is spent on proactive and direct communications and answering focused questions from asset managers and financial analysts.

The time companies spend on sustainable investment communications does not align with who they say their priority audiences are. Results showed that companies spend four times as much time communicating with sustainability-related product and service providers, including completing questionnaires and checking / correcting data, as they do with asset managers. However, when asked about their priority audience, they named SRI specialists at asset manager companies who hold company shares as the highest priority audience (albeit marginally). This shows a large discrepancy between the audience prioritization and the time spent on sustainable investment communication.

³⁴⁰ Extel and SRI-Connect, Independent Research in Responsible Investment Survey 2019, SRI-Connect, 2019. Approximately 50% of participating companies were from EU member states.

As larger companies have larger resources, this leads to the assumption that larger companies have an advantage in providing more or better ESG data. This is strengthened by research that shows that large-cap companies have significantly higher ESG disclosure scores than mid-cap companies.³⁴¹

The survey conducted for this study showed the following results:

Table 31: Amount of Time (Measured in Person Days) Spent by Companies in Preparing Their Own Sustainability Reports and in Responding to Questionnaires or Correcting Ratings Reports

Person Days Spent	Number of Respondents	
	Time spent preparing your own reports and publications (in person days)	Time spent responding to questionnaires or correcting ratings reports (in person days)
Median person days	150	90
Average person days	316	155
≤ 50	7	21
51-100	15	12
101-150	4	3
151-200	9	9
201-250	0	1
251-300	4	0
301-350	0	4
>350	10	5

The average number of days to complete their own company sustainability reports and other sustainability-related disclosures was 316 days (data from 44 company respondents).

The average number of days spent responding to sustainability-related ratings and ranking providers, including time completing questionnaires and correcting data or reports was 155 days (data from 47 respondents). This correlates to reports from companies that some single ratings questionnaires, such as CDP or the SAM CSA, can take upwards of 300 hours or approximately 40 person days each to complete. Overall, this is equivalent to approximately 7 months of one person's time and is corroborated by the sources quoted earlier, which indicate that, on average, listed companies spend approximately 50% of a full-time equivalent employee's time on these tasks per year.

Based on the company responses to the survey conducted for this study, companies are allocating greater time to their sustainability reports and other disclosures, however, companies are also investing a significant amount of time responding to requests for information from sustainability-related rating and data providers, and correcting errors in the output issued by sustainability-related rating and data providers. .

³⁴¹ N. Tamimi and R. Sebastianelli, 'Transparency among S&P 500 Companies: An analysis of ESG Disclosure Scores', *Management Decision*, Volume 55, Issue 3 (January 2017).

Part VI: Conclusions and Recommendations

This section identifies eight key issue areas that hinder the efficient functioning and development of the market. In response, eight recommendations are outlined, grouped by key market participants, that address these issue areas and which aim to provide solutions focused on helping re-align the market for sustainability-related products and services in a way that complements the European Commission's Sustainable Finance Action Plan.

6.1. Key Issues

Multiple process issues were reported by the different market participants within the sustainability-related ratings, data and research value chain, as summarised by the key market participant groupings below,:

- **Companies** report that sustainability-related rating, data and research providers do not gather and process data and information in a timely, reliable or efficient manner; that sustainability-related product and service providers' methodologies are opaque and do not sufficiently take into account company context; that providers make errors (and are slow to correct them) and that engagement with multiple providers is time-consuming. The majority of reporting companies believe sustainability exposures and practices are only moderately reflected by sustainability-related rating, data and research providers, and overall are frustrated by a lack of transparency and comparability across providers. In addition, they state that most asset managers do not ask sustainability oriented questions during their regular meetings with company management.
- **Asset managers and asset owners** report that the collection and aggregation of data is a valued service, largely due to lack of internal capacity to conduct such research. They also report that companies do not publish sufficient or comparable data and that sustainability-related rating, data and research providers do not always cover material issues, focus more on providing ratings rather than data (data being of greater value to them), and are backwards looking in their analysis.
- **Sustainability-related product and service providers** report that companies do not publish sufficient reliable data to enable appropriate comparability and analysis, while at the same time asset managers demand increased breadth, depth, and quality of data.
- **All market participants** report that the market for sustainability related ratings, data and research is growing whilst at the same time there is consolidation as larger, US-headquartered financial services companies have acquired specialist sustainability-related rating, data and research providers; that there potential conflicts of interest; that there is a need for clearer definitions and consistent use and understanding of terminology; and that there is a need for greater transparency across the industry in terms of governance structures and the methodologies adopted by sustainability-related ratings, data and research providers.

Overall one consistent theme across the interviews and surveys conducted with market participants for this report is that the solution needs to be primarily delivered by

someone else in the value chain. Asset managers and sustainability-related product and service providers place the onus on companies to improve reporting; companies and asset managers place the onus on sustainability-related product and service providers to be more transparent over their methodologies and provide better quality analysis; and sustainability-related product and service providers and companies place the onus on asset managers to place greater priority on sustainability-related issues (and pay more for related products and services).

The key individual issue areas of concern are explored further below:

6.1.1. Transparency

Although companies and investors are split between those who state they understand the methodologies used by sustainability-related rating and data providers and those who do not, overall the call for greater transparency of the methodologies used by providers, and information on the quality assurance processes, were common themes across responses from across asset managers, asset owners and company respondents to the survey conducted for this study. **Sustainability-related ratings are the views of the provider undertaking the evaluation, against criteria they determine. Without full transparency of the methodology adopted, it is not possible to assess how effective they have been in evaluating a company, or whether the criteria selected align with the sustainability objectives of the user.**

Asset managers and asset owners noted a lack transparency of the methodologies deployed and a related lack of understanding as to what the rating or data represents. Concern was also expressed that some investors will take sustainability-related ratings at face value, while most experienced investors are looking more closely at the underlying data and making their own judgements. **Greater transparency of objectives sought, the methodologies deployed (including scope, metrics and weightings) and the quality assurance processes in place, will help investors and companies understand the reasons for divergence between different sustainability-related rating and data providers, enable investors to utilise the output more effectively and assist companies determine how best to measure, manage and disclose sustainability-related information.**

The leading sustainability-related product and service providers support calls for more transparency with respect to what rating and data providers measure and how providers evaluate companies, and are taking steps to deal with the transparency concerns. For example, MSCI has established a new communications portal and updated its methodology documents and at least three of the leading providers (Sustainalytics, CDP, and MSCI) have moved to make their ESG ratings publicly available, if not the full underlying methodology.

6.1.2. Timeliness, Accuracy, and Reliability

The credibility, completeness and comparability of data disclosed by companies is a critical factor that influences the quality and accuracy of sustainability-related ratings, data and research. Whilst the volume of sustainability-related disclosures by companies is increasing and improving, there remains significant variation in the quality and content of these disclosures.

Companies continue to express concerns about the timeliness of updates to their profiles within the various sustainability-related rating, data and research provider outputs and systems. This is of concern for companies as they work to

update their sustainability-related disclosures in timely manner, and regularly communicate on sustainability-related with their key stakeholders, yet those selling sustainability-related ratings, data and research can be months behind on their updates. Companies indicate providers not only have an issue with timeliness, but also with accuracy and reliability. Providers that state that artificial intelligence and other automated search tools are keeping information up to date, also have errors.

As market demand from investors and asset managers for sustainability-related information increases, so does the demand from companies that sustainability-related rating, data and research providers correct inaccurate information. Companies repeatedly express frustration with the ability to directly engage and correct their own information with various sustainability-related rating, data and research providers.

The survey conducted for this study showed only 19% of companies felt that the output from sustainability-related rating and data providers accurately reflects their company sustainability exposures and management practices. There were also specific concerns raised over particular metrics and aspects of assessment, such as controversy assessment, that may reflect incorrect, immaterial, outdated, disputed or remediated issues. These were considered to also impact the reliability of sustainability-related ratings and data in relation to the sustainability performance of the company.

Asset managers, asset owners and benchmark administrators reported the importance of better sustainability-related data quality and consistency, for example, more data granularity so that users can better integrate this into their own financial analysis, and the importance of time-sensitive information.

6.1.3. Bias and Correlation

The survey and the desk based research conducted for this study shows the potential for bias associated with company size, geography and industry sector. In particular, **the bias towards large companies that have the resources to collect and disclose data was noted by asset managers, industry experts and company respondents.** It is recognised that providers have taken steps to mitigate bias through enhancements to methodologies adopted.

In the survey conducted for this study, respondents from across market participant groupings agreed that there is a weak correlation between sustainability-related ratings across sectors and companies. This is an area that has been well researched over the past 5 years and is often commented on in the media.³⁴²

The MIT research paper by Florian Berg, Julian Koelbel and Roberto Rigobon³⁴³ notes that the correlation between six major sustainability-related ratings providers ranges between 0.38 and 0.71 and is on average 0.54. They conclude that the **divergence can be attributed mainly to scope divergence (what they each choose to measure) and measurement divergence (the choice of indicators and quality of data processing).**

³⁴² Billy Nauman, 'Fund Managers Struggle to Compare ESG Apples with Oranges', Financial Times, 11 May 2020, <https://www.ft.com/content/6ff72af4-5d76-11ea-ac5e-df00963c20e6> or the Economist: <https://www.economist.com/finance-and-economics/2019/12/07/climate-change-has-made-esg-a-force-in-investing>. See Nauman's article, for example.

³⁴³ Berg, Florian and Kölbels, Julian and Rigobon, Roberto. 'Aggregate Confusion: The Divergence of ESG Ratings' (White paper, MIT Management Sloan School, May 17, 2020), <https://ssrn.com/abstract=3438533> or <http://dx.doi.org/10.2139/ssrn.3438533>.

When applied to fundamental active management, scope divergence and measurement divergence - provided that these are clear and explicable - are interesting and valuable to investors, but measurement divergence where it relates to quality of data processing is of concern.

However, when applied to portfolio analytics, without transparency or further explanation, divergence at any level is detrimental. If investors are expected to use the analytics to make investment decisions, the choice of indicators used, the data behind them and any weightings applied must be clearly communicated by the data provider.

The consequences of divergence, or low correlation, vary from bringing into question the credibility of sustainability-related ratings, to being an impediment to prudent decision-making aimed at moving capital to more sustainable investments. The latter concern is particularly the case where investors lack an appreciation of the limitations of sustainability-related products, in particular ratings, but also raw data. For example, where asset managers, without the in-house resource and expertise on ESG issues, rely on a single rating or source of data that does not align with their investment strategy. This is also a concern with passive investment strategies that rely primarily on a single rating to inform a sustainability-related investment approach.

6.1.4. Conflicts of Interest

Four primary potential conflicts of interest were identified related to ownership, product mix, separation of commercial and analytical teams and methodology governance.

Ownership: The ownership of sustainability-related rating providers raises a conflict of interest if not considered independent from the companies subject to evaluation. For example, if the parent company owns a portfolio of other companies rated by the rating provider and could be perceived as influencing the rating provided associated with other portfolio companies.

Mix of Products and Services Offered: Some sustainability-related rating providers rate companies and simultaneously offer paid advisory services to improve ratings, either directly or via third party recommendations. This is perceived by companies and investors as a potential conflict of interest³⁴⁴ and may create a bias towards those companies that pay for such advisory services. Some sustainability-related rating providers also charge companies to see their own reports, again creating a perceived bias towards those companies with resources to financially engage.

Separation of Commercial and Analytical Teams: Providers selling multiple products – such as those that provide multiple products like ESG equity ratings, analysing ESG factors underlying credit ratings, or selling ESG indices - may require an elevated and appropriate separation between departments to avoid potential conflicts of interest. Further, a conflict of interest may arise if product and service provision teams have the potential to be influenced by teams from the commercial part of the business.

³⁴⁴ Medef (French Business Confederation); Afep (Association of Large French Companies); Cliff (French association of Investor Relations); C3D (French Association of Sustainable Development and CSR Directors), 'French Initiative on the Relations between Companies and Non-Financial Rating Agencies: Summary of Results and Recommendations', (White paper, AFEP, February 2019), <https://afep.com/en/publications-en/french-initiative-on-the-relations-between-companies-and-non-financial-rating-agencies/>. See Initiative from Medef-Afep-Cliff-C3D on relations between companies and non-financial rating agencies.

Methodology Governance: A conflict of interest may arise if a product methodology does not have processes in place to ensure the methodology is appropriately applied and analysts are not influenced by outside parties.

6.1.5. Materiality and Contextual Understanding

There are over one-thousand indicators deployed by sustainability-related rating and data providers to assess company ESG performance. Many of these indicators are not material or often not relevant to individual companies or industry sectors. **The breadth and complexity of the data creates a large amount of 'noise' in assessments by rating and data providers and places an undue expectation on companies. This noise can overwhelm the signal and truly material issues can be lost amongst the detail.** Asset managers and asset owners have called for more sustainability-related data-points and a clearer focus on material issues. They also note a need for stronger links to financial materiality, better integration into investment decision-making, and a concern over a lack of focus on material sustainability-related factors.

Companies and asset managers alike noted that ESG analysts often lack sufficient contextual understanding of the fundamental business drivers of the industry they are covering to enable them to identify and prioritise material issues. In addition, they do not understand the mainstream investor relations practice including issues such as how long a company may take to respond to questions.

6.1.6. Company Sustainability Disclosures

Despite numerous reporting standards such as GRI, SASB and TCFD, the majority of sustainability-related product and service providers and investors complain that there is a lack of comparable and complete data disclosure, and that the quality of data and information disclosed is often poor. These factors all undermine the usefulness of company sustainability disclosures to investors.

Companies frequently complain about the number of questionnaires they are asked to complete. They note that different questionnaires request information on different subjects within the same overall topic area. The precise requests and data formats required are often marginally different, thereby increasing the workload. Companies report that the data requested is often of little relevance to their business. This creates a significant resource burden on companies, while delivering little advantage. As an example, companies that produce comprehensive, public TCFD-aligned disclosures may still find that this information does not fit the data collection and ratings models of different ratings providers, such that the companies worry that they will be downgraded or excluded from indices as a result.

The need for standardised reporting of sustainability-related data by companies so that investors and sustainability-related product and service providers can better assess performance is acknowledged across market participants. This is a rapidly developing area with many and varied actors or points of collaboration. In the last few months alone, the five leading sustainability reporting organisations³⁴⁵ issued a statement of intent to work together towards comprehensive company reporting³⁴⁶, the World Economic Forum released a set of universal, material

³⁴⁵ CDP, CDSB, GRI, IIRC and SASB

³⁴⁶ Impact Management Project, 'Statement of Intent to Work Together Towards Comprehensive Corporate Reporting' (White paper, World Economic Forum & Deloitte, September 2020),

ESG metrics and recommended disclosures³⁴⁷, the two leading global sustainability disclosure standard providers, GRI and SASB, declared their intention to collaborate³⁴⁸ and SASB announced that in addition to over 100 leading asset managers and asset owners³⁴⁹, 17 ESG data and analytics providers now have a licensing relationship with the sustainability disclosure standard developer.³⁵⁰

It is recognised that European Commission has completed a consultation exercise on the issue of non-financial company reporting and intends to intervene in this area in the near future through the revision of the NFRD and other measures. The European Commission has tasked EFRAG with the preparatory work for the elaboration of the EU sustainability reporting standards. EFRAG Task Force has already published a progress report and final advice is expected by the end of January 2021.³⁵¹

6.1.7. Engagement with and by Companies

The survey conducted for this study and literature review indicates that **companies are keen to enter a dialogue with investors on sustainability-related issues, but are equally frustrated with the outcome of dialogue with sustainability-related product and service providers and analysts.** This is supported by the IRRI Survey 2019, which firmly states that the companies view on engagement could not be clearer – the priority improvement that they want to see from sustainability-related product and service providers is more direct communications.

Companies indicate that they do not have ongoing dialogue with ESG ratings analysts or clear lines of channels to engage with them. While 'contact points' are often provided, these are often with 'ratings communications teams' rather than the analyst who needs to understand the industry and company in order to produce a fair evaluation of its sustainability exposures and management practices. Exacerbating this lack of direct communication is the perception that ESG analysts cover too many companies to be able to understand the business of these companies adequately.

However, companies' management of sustainability communications with investors is generally seen as passive and reactive. This contrasts with the proactive approach they take to communicating with mainstream investors. The results from the survey conducted for this study showed that while 16% of companies incorporate key sustainability messages in quarterly results webinars and 30% of companies simply publish a sustainability report for investors, only 13% of companies arranged for targeted distribution of such a report to ESG oriented investors, only 5% organised a dedicated sustainability results webinar and a further 22% organised or participated in ESG roadshows or conferences.

<https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf>.

³⁴⁷ World Economic Forum, *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*, Deloitte, EY, KPMG and PwC, September 2020, http://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf.

³⁴⁸ SASB, 'Promoting Clarity and Compatibility in the Sustainability Landscape', Blog, SASB, 12 July 2020, <https://www.sasb.org/blog/gri-and-sasb-announce-collaboration-sustainability-reporting/>.

³⁴⁹ 'Firms Licensing SASB', Tools, SASB, <https://www.sasb.org/license-sasb-framework/>.

³⁵⁰ Ibid.

³⁵¹ <https://www.efrag.org/Activities/2010051123028442/Non-financial-reporting-standards>

Asset managers were clear that the most useful information for ESG integration within their investment process comes from company meetings and conversations with companies, as opposed to ratings providers. Because many companies do not manage sustainable investor communications proactively, they may spend too much time answering questions and supplying data to firms that do not have influence over their share price and spend too little time on the firms that should be a higher priority for them. In doing so, companies may succeed in meeting the needs of data providers but fail to meet the needs of the active fund managers that buy and sell their shares. Significantly, such active managers are typically the marginal buyers or sellers that affect the share price of a company and hence influence its strategy. By definition, a passive investor cannot be the marginal buyer or seller as they are obliged to track towards current market weighting.

Some companies perceive that they receive 'hundreds of questionnaires on sustainability and ESG from investors'. However, few sustainability-related rating, data and research providers that have any material influence on the investment value chain issue questionnaires (primarily CDP and S&P SAM CSA).

From this, we conclude that companies do not distinguish effectively between questions that are presented by investor-facing organisations and requests for sustainability related information from customers (supply chain related) or clients, academics or other organisations such as NGOs.

The overall time demand on companies for navigating the sustainability-related rating, data and research ecosystem is significant with an average of 316 days per year (the equivalent of 1.25 full time staff) to complete sustainability reports and disclosures and an average of 155 days per year (the equivalent of 0.6 full time staff) to respond to sustainability-related ratings and rankings providers.

It is notable that in the survey conducted for this study, 'time demanded to participate in the process' was ranked fourth in what frustrated companies most about sustainability-related ratings, data and research, behind lack of analyst understanding, lack of transparency in ratings processes and inaccuracy of data presented.

6.1.8. Clear and Consistent Terminology

The survey conducted for this study revealed that **there is inconsistent use of key terms used and a need for clearer definitions for sustainability-related products and services across market participants and other stakeholders.** This includes fundamental issues such as the use of the terms ESG or sustainability, which are applied in various and inconsistent ways by market participants.

There is no commonly accepted formalized naming structure to describe sustainability-related products and services, and providers use different terms, such as rating, data and research, in different ways.

6.2. Recommendations

To address the key issues outlined above, and in recognition of current good practice, the following recommendations are made for consideration by the European Commission.

As noted above, market participants generally expect issues to be solved by someone else in the value chain. The overarching perspective that this study has been able to take enables us to see all of the problems as interrelated and to conclude that the solution must therefore involve reciprocity to a high degree between all parties in the value chain.

For this reason, we recommend that the European Commission focus on each market participant, and the approach taken is one where industry standards of performance are developed as increasingly rigorous steps toward enhancing overall market performance. These could initially be presented as industry standards that are overseen by an independent third-party and that reports on progress across the market participants.

6.2.1. Actions focused on Sustainability-Related Product and Service Providers

1. Disclosure of sustainability-related rating methodologies

Key issue area addressed: Transparency (6.1.1)

Interventions should aim to enhance transparency with respect to the underlying research, data aggregation and rating methodologies. As sustainability rating providers use data to interpret and extrapolate sustainability performance and often express this in the form of a rating (or ranking), the methodology around how that data is used should be clear and transparent to enable all stakeholders to understand the rationale. The disclosure of methodologies for sustainability-related ratings should include:

- Specific assessment criteria deployed across each sustainability-related topic or issue;
- Sources of data, such as company disclosures and/or regulatory databases, media sources;
- Rationale for weighting of each issue covered and any re-weighting applied to arrive at a best-in-class outcome or final rating;
- Explanation as to whether a sustainability-related rating is absolute or relative;
- Indication of any particular standards, guidelines or other frameworks considered in calculating a sustainability-related rating.

At a minimum, this level of transparency should be made to the end users and the company subject to the rating, data or research free of charge.

2. Industry standards for sustainability-related rating and data products

Key issue areas addressed: Transparency (6.1.1); Timeliness, Accuracy, and Reliability (6.1.2); Bias and Correlation (6.1.3); Conflicts of Interest (6.1.4); Materiality and Contextual Understanding (6.1.5); Engagement with and by Companies (6.1.7); Clear and Consistent Terminology (6.1.8)

Encourage sustainability-related rating and data providers to work with users (principally asset managers and asset owners) and companies to develop and apply industry standards based on industry-accepted best practice for the provision of sustainability-related ratings and data. This should include the development of a certification system for sustainability-related rating and data product providers, and the appointment of an appropriate body to provide supervision and assurance of sustainability-related rating and data product providers to verify that the standards are adhered to, to receive notification of grievances or non-compliance against providers, to determine enforcement measures as appropriate, to administrate and to report on progress.

Establishing industry standards is a common practice and an effective way to allow an industry to collectively assess and address their most material issues. By seeking to have these various parties engage more actively, a more collaborative understanding of the issues faced by the industry will become more apparent to the sustainability-related rating and data providers and the users of their products.

This should include, for both sustainability-related rating and data providers:

- Classification and communication of the **overall objective(s) of the sustainability-related rating or data product**;
- The development, agreement and adoption of **governance structures and codes of conduct** and requirements with respect to the prevention and management of potential conflicts of interests (this may be combined with Action 5 below);
- The manner in which sustainability-related rating and data providers **engage with companies** they evaluate and with other relevant stakeholders;
- **Error correction processes and timing**, including a requirement to promptly publish a clearly marked correction note if any substantive errors are found to have been in the public domain; and
- Addressing the process for **retaining and/or removing incorrect information about a company performance, or past controversies**.

Further, for sustainability-related ratings providers, the following should be included:

- **Transparency** of rating (or ranking, scoring) and aggregation methodologies, material issues, key performance indicators and weighting factors (this may be combined with Action 1 above);
- **Timing and timeliness of assessments**, including a commitment to update ratings on a cyclical basis for all covered companies. Coverage of companies that have not been comprehensively updated within the last 12 month period should be discontinued or clearly documented;
- Determination of peer groups or industry sectors, and the relevant metrics that apply, including **materiality** considerations;

- Disclosure of the **risk of bias** in the ratings and efforts made to address this;
- Determination of and adherence to **training and competency requirements** for all sustainability analysts (defined as any analyst that makes a judgement call about an industry or company ESG rating).

3. **Communication of sustainability-related ratings, data and research with target companies**

Key issue areas addressed: Bias and Correlation (6.1.3); Conflicts of Interest (6.1.4); Engagement with and by Companies (6.1.7)

In addition to the development of industry standards for sustainability-related ratings and data providers, consideration should be given the following measures:

- Requiring that sustainability-related ratings, data and research is shared in its entirety for free (or at minimal cost) with the target company at the point of publication; and
- Restricting the communication of rating, data and research outputs to the company being rated ahead of publication.

The feasibility of these measures should be analysed through further consultation with sustainability-related product and service providers and other market participants as it is anticipated that not communicating the contents of a rating or research to the company being rated ahead of publication may be opposed by sustainability-related rating providers and companies alike. The sustainability-related product and service providers find the practice of communicating ahead of publication helpful as sending 'draft findings' to companies has the effect of pushing the cost of data collection and research onto the company. Some companies also like the practice as it gives them some control over the published research. However, there are parallels between the historic practice of sell-side brokers sending draft notes to companies for comment before publication. That process was open to abuse and subsequently prohibited. It is also believed that this practice creates an imbalance or bias between those (typically larger) companies that have the resources to correct sustainability-related rating and research reports, and those that do not.

4. **Purpose and limitation statements for published sustainability-related rating, data and research products**

Key issue areas addressed: Transparency (6.1.1); Bias and Correlation (6.1.3); Materiality and Contextual Understanding (6.1.5); Clear and Consistent Terminology (6.1.8)

Require sustainability-related rating, data and research providers to clearly state the purpose and limitations of what they are providing to users, in order to provide clarity of the objectives of the product, consistency in the terminology used, and address any deficiencies in the understanding of the limitations that apply. This could be in the form of:

- A 'purpose statement' that sets out (as precisely as possible) the question that each product seeks to answer and an explanation of how the criteria used within the product is consistent with an established and accepted definition of the key terminology used (including ESG, sustainability or sustainable development), for example, by aligning with the relevant section or definition in the EU Taxonomy; and
- A 'research limitation statement' that includes reference to the level of reliability of the rating, data or research, the potential for bias, and key attributes such as the degree to which estimations or extrapolations are used for missing data, the proportion of company disclosed data versus alternative data used in the analysis and the proportion of the rating or assessment that is determined by: 1. Company policies (or commitment statements), 2. Processes (or management approach) and 3. Impact (or outcomes).

5. Public disclosure of the management of conflicts of interest by sustainability-related rating, data and research providers

Key issue area addressed: Conflicts of Interest (6.1.4)

Seek to ensure that all organisations that offer sustainability-related ratings, data or research products publically disclose their policies and procedures for the prevention and management of potential conflicts of interest, or explain why they do not have one in place. To manage specific issues this could include:

- Processes that establish adequate checks and balances or policies to ensure the parent private equity firm cannot influence ratings of its other portfolio companies and transparency around relationships with shareholders and related entities
- Policies to ensure that employees responsible for research and ratings are kept separate from any advisory services to companies that support ratings improvement.
- Policies to ensure appropriate separation between sales and analyst teams and to establish, and enforce, policies that protect analyst teams from any outside influence.
- Policies that establish strong analyst training, research and rating sign-off procedures and methodology application review teams/committees.
- Policies that ensure effective management of confidential data, including insider dealing and external communications

6.2.2. Actions focused on Asset Managers

6. Sustainability-related declarations by asset managers

Key issue area addressed: Transparency (6.1.1)

Asset managers increasingly acquire and use sustainability-related data from third party data providers, as well as integrate their own research. Any asset manager providing sustainability products and services should reasonably expect to have certain information available to support such offerings and provide explanations regarding quality assurance processes to ensure ESG information is timely, accurate and reliable. It is recommended that the European Commission require active asset managers publish:

- A sustainability positioning statement
 - A statement that articulates how they apply sustainability factors to their investment management practices and includes a line of sight articulation between this and one or more of the foundational public definitions of sustainable development (for example, include the Brundtland Report definition, the Paris Climate Accord or the UN Sustainable Development Goals).
- An integration report – for asset managers stating they are integrating sustainability factors
 - If claiming to integrate sustainability factors into investment analysis, an asset manager should publish for all companies where they, as an institution, own >1% of the company's issued share capital or where that company forms >3% of any fund that they manage, a short qualitative assessment of the environmental, social and economic exposures (positive and negative) of that company.
- An engagement report – for asset managers engaging with companies on such issues
 - If engaging with companies on sustainability factors during investment analysis, an asset manager should publish their actions for all companies where they, as an institution, own >1% of the company's issued share capital or where that company forms >3% of any fund that they manage, a short qualitative assessment of engagement action that they have undertaken with that company to raise environmental, social, economic or corporate governance issues.
- A research spend report
 - If claiming to integrate sustainability factors into valuation or to engage with companies to deliver sustainability outcomes, asset managers should disclose the percentages (but not the absolute amounts) of research spend on sustainable investment research vs 'mainstream' investment research and on 'in-house' vs 'third-party' research.

This recommendation should be reviewed in light of the publication of the SFDR technical standards. It is anticipated that there may be some initial pushback from asset managers that this places an undue reporting burden on them and puts them at a commercial disadvantage.

6.2.3. Actions focused on Companies

7. Enhance company sustainability-related disclosures

Key issue area addressed: Company Sustainability Disclosures (6.1.6)

Company disclosure of useful sustainability-related data remains a major obstacle to the further development of the market. **It is recognised that the Commission is already addressing this issue via the revision of the NFRD, planned for Q1 2021, and also via the preparatory work on the development of EU non-financial reporting standards. The Commission has already given a mandate to EFRAG to carry out a preparatory work on the elaboration of the EU standards.**³⁵²

It is recommended that that Commission continue to take action on enhancing company sustainability disclosure with the aim of improving the comparability, completeness, consistency and quality of data disclosure, and to make this data available through an EU-wide platform (European single access point) that provides investors and other stakeholders with seamless access to financial and sustainability-related company information. In order to drive greater consistency and comparability of company disclosures, focus should be given to a set of core sustainability indicators that are to be considered material to (and therefore reported by) all companies, and a sub-set of indicators that are relevant to each individual industry sector. Engage and consult with the emerging bodies that are also shaping the next generation of the company sustainability disclosures, such as FSB (TCFD), IFRS, and the International Organization of Securities Commissions (IOSCO) to determine the optimal approach.

Additionally, it is recommended that the Commission consider interventions that encourage companies to communicate their sustainability performance directly to analysts and investors through reports, briefings and meetings and to apply publicized reporting timetables and closed periods. Alongside this, companies should be encouraged, via training, best practice guides and case studies, to apply standard investor relations practice to sustainable investor communications.

³⁵² <https://www.efrag.org/Activities/2010051123028442/Non-financial-reporting-standards>

6.2.4. **Actions focused on all stakeholders**

8. Clarity on terminology and capacity building on sustainable finance and sustainability-related products and services for all market participants and stakeholders

Key issue areas addressed: Clear and Consistent Terminology (6.1.8)

The rapidly evolving sustainable finance markets has led to the development of new products and services by providers and a need for increased capacity building, professional development, education and awareness raising across a widening number of stakeholders. In consultation with market participants, interventions should be considered that:

1. establish clear definitions for the sustainability-related products and services and other key terms used, and
2. encourage minimum levels of education and training to support key market actors on identifying and managing sustainability issues.

Many existing professions, with credential based training requirements, are already integrating sustainability-related programs, such as: Investor Relations Officers, General Counsels, Corporate Secretaries, Boards of Directors and Financial Analysts. These existing programs can be modelled and multiplied to expand such training and development. These types of professional associations are already developing sustainability-related trainings in their own manner at their own pace. It is further recommended that the awareness in the market of the purpose and limitations of sustainability-related products and services is raised through communication and outreach to market actors and broader stakeholders.

ANNEX 1: PARTICIPANTS IN THE SURVEY CONDUCTED FOR THIS STUDY

The following table provides a register of the participants in the survey conducted for this study between April and the end of September 2020.

Type	Domicile	Participant (noting confidentiality)	Form of Participation	Notes on Organisation
Asset Manager	Australia	James Tayler, Ellerston Capital	Survey	Assets under mgmt.: USD 5 bn
Asset Manager	Denmark	Finans Danmark (FiDa)	Survey	
Asset Manager	Finland	-	Survey	Assets under mgmt.: EUR 204 bn
Asset Manager	Finland	-	Survey	
Asset Manager	France	Trusteam Finance	Survey	Assets under mgmt.: EUR 1.2 bn
Asset Manager	France	-	Survey	-
Asset Manager	France	-	Survey	Assets under mgmt.: EUR 33 bn
Asset Manager	France	Ladislav Smia, Mirova	Interview	Assets under mgmt.: USD 15.8 bn
Asset Manager*	France	-	Survey	-
Asset Manager	France	AXA Investment Managers	Interview	AXA Investment Managers
Asset Manager	France	-	Survey	Assets under mgmt.: EUR 15 bn
Asset Manager	France	Sandor Vizkeleti, Amundi Asset Management	Survey	Assets under mgmt.: EUR 1,592 bn
Asset Manager	France	-	Survey	-
Asset Manager	Germany	-	Survey	-
Asset Manager	Germany	Murray Birt, Deutsche Asset & Wealth Management	Survey	Assets under mgmt.: EUR 700 bn
Asset Manager	Germany	-	Survey	-
Asset Manager	Germany	-	Survey	Assets under mgmt.: EUR 330 bn
Asset Manager	Hungary	-	Interview	-
Asset Manager	Ireland	-	Survey	Assets under mgmt.: EUR 9 bn
Asset Manager	Netherlands	-	Survey	Assets under mgmt.: EUR 46,9 bn
Asset Manager	Netherlands	-	Survey	Assets under mgmt.: EUR 5 bn
Asset Manager	Netherlands	-	Survey	Assets under mgmt.: EUR 285 bn
Asset Manager	Netherlands	-	Survey	Assets under mgmt.: EUR 278 bn
Asset Manager	Netherlands	-	Survey	-
Asset Manager	Spain	-	Survey	Assets under mgmt.: EUR 1.2 bn
Asset Manager	Sweden	-	Survey	Assets under mgmt.: SEK 100 bn
Asset Manager	Sweden	-	Survey	Assets under mgmt.: USD 400 bn
Asset Manager	Sweden	-	Survey	Assets under mgmt.: EUR 115 bn
Asset Manager	Switzerland	-	Survey	Assets under mgmt.: CHF 16 bn
Asset Manager	Switzerland	Peter Zollinger, Globalance Bank	Survey	-

Type	Domicile	Participant (noting confidentiality)	Form of Participation	Notes on Organisation
Asset Manager	UK	-	Survey	Assets under management: EUR 371 bn
Asset Manager	UK	-	Survey	Asset under mgmt.: EUR 1,800 bn
Asset Manager	UK	-	Survey	Asset under mgmt.: 1.5 bn
Asset Manager	UK	Antti Savilaakso, Auriel Capital Management	Survey	-
Asset Manager	UK	-	Survey	Assets under mgmt.: USD 27.6 bn
Asset Manager	UK	Arleta Majoch, Auriel Capital Management	Survey	-
Asset Manager	UK	-	Survey	Assets under mgmt.: USD 700 m
Asset Manager	UK	-	Survey	Assets under mgmt.: GBP 544 bn
Asset Manager	UK	-	Survey	Assets under mgmt.: GBP 90 bn
Asset Manager	UK	-	Survey	Assets under mgmt.: USD 273 bn
Asset Manager	UK	Luca Grassadonia, JCI Capital Ltd	Survey	Assets under mgmt.: USD 35 bn
Asset Manager	UK	-	Survey	Assets under mgmt.: USD 60 bn
Asset Manager	UK	-	Interview	Assets under mgmt.: GBP 17 bn
Asset Manager	UK	-	Survey	Assets under mgmt.: USD 28 bn
Asset Manager	UK	-	Interview	Assets under mgmt.: EUR 500 m
Asset Manager	UK	-	Survey	Assets under mgmt.: USD 517 bn
Asset Manager	USA	-	Survey	-
Asset Manager	USA	Etienne Dupuy, Invesco	Survey	Assets under mgmt.: USD 1,053 bn
Asset Manager	USA	-	Survey	Assets under mgmt.: USD 584 bn
Asset Manager	USA	-	Survey	Assets under mgmt.: EUR 1,522 bn
Asset Owner	Australia	-	Survey	Assets under mgmt. : AUD 120 bn
Asset Owner	Belgium	-	Survey	Assets under mgmt.: EUR 10,300 bn
Asset Owner*	Germany	-	Survey	Assets under mgmt.: EUR 2.2 bn
Asset Owner	Germany	-	Survey	Assets under mgmt.: EUR 506 bn
Asset Owner*	Germany	-	Interview	Assets under mgmt.: EUR 2.2 bn
Asset Owner	Germany	-	Survey	-
Asset Owner	Ireland	-	Survey	Assets under mgmt.: EUR 24 bn
Asset Owner	Netherlands	-	Survey	Assets under mgmt.: EUR 550 m
Asset Owner	Sweden	-	Survey	Assets under mgmt. : SEK 664 bn
Asset Owner	Switzerland	-	Interview	
Asset Owner	UK	Faith Ward, Brunel Pension Partnership Limited	Survey	
Benchmark Administrator	Germany	-	Survey	Provides index tracking a selection of the top 250 shares from global markets, screened according to sustainability criteria

Type	Domicile	Participant (noting confidentiality)	Form of Participation	Notes on Organisation
Benchmark Administrator	Netherlands	-	Survey	
Benchmark Administrator	UK	-	Survey	Global financial exchange company
Benchmark Administrator	USA	-	Survey	Provides data and benchmarks to capital and commodity market participants.
Benchmark Administrator	USA	-	Survey	
ESG Data Provider	Australia	-	Survey	
ESG Data Provider	Canada	-	Interview	
ESG Data Provider	Netherlands	Kanchan Mishra, Sustainometric	Survey	
ESG Data Provider	Switzerland	RepRisk	Survey	
ESG Data Provider	UK	FTSE Russell - London Stock Exchange	Interview	
ESG Data Provider	USA	-	Survey	Market coverage: > 6,000 firms
ESG Data Provider	USA	Bloomberg	Interview	
ESG Data Provider	USA	-	Survey	-
ESG Data Provider	USA	-	Survey	
Grant Funded Research Provider	France	-	Survey	A multi-stakeholder think tank on climate issues
Grant Funded Research Provider	UK	-	Survey	Global initiative led by asset owners and supported by asset managers
Grant Funded Research Provider	UK	CDP	Interview	
Grant Funded Research Provider	UK	-	Interview	Non-profit financial think tank
Grant Funded Research Provider	UK	Thomas Oneill, Influence Map	Survey	
Credit Rating Agency	France	-	Survey	European rating, research and advisory group
Credit Rating Agency	Germany	RAEX group	Survey	
Credit Rating Agency	Italy	-	Survey	-

Type	Domicile	Participant (noting confidentiality)	Form of Participation	Notes on Organisation
Credit Rating Agency	Spain	-	Survey	European based credit rating agency
Credit Rating Agency	Switzerland	-	Survey	Market coverage: > 2,400 firms
Credit Rating Agency	USA	-	Survey	Leading global provider of credit ratings for the global financial markets
Credit Rating Agency	USA	-	Survey	-
Credit Rating Agency	USA	-	Survey	Leading global provider of credit ratings for the global financial markets
Credit Rating Agency	USA	-	Survey	Leading global provider of credit ratings for the global financial markets
Credit Rating Agency	USA	-	Survey	-
ESG Rating Provider	Canada	-	Interview	
ESG Rating Provider	France	Antoine Martin-Regniault, EcoVadis	Survey	
ESG Rating Provider	France	-	Survey	-
ESG Rating Provider	France	-	Survey	Market coverage: > 3,200 firms
ESG Rating Provider	France	-	Survey	-
ESG Rating Provider	France	-	Survey	European rating, research and advisory group
ESG Rating Provider	Germany	-	Survey	
ESG Rating Provider	Germany	-	Interview	
ESG Rating Provider	Germany	Dr Axel Hesse, SD-M: Sustainable Development Management	Survey	
ESG Rating Provider	Germany	RAEX Group	Survey	
ESG Rating Provider	Netherlands	GRESB	Survey	
ESG Rating Provider	Switzerland	-	Survey	Market coverage: > 2,600 firms
ESG Rating Provider	UK	-	Survey	Market coverage: > 4,000 firms
ESG Rating Provider	UK	-	Survey	Market coverage: > 4000 firms

Type	Domicile	Participant (noting confidentiality)	Form of Participation	Notes on Organisation
ESG Rating Provider	USA	S&P Global	Interview	
ESG Rating Provider	USA	-	Survey	-
ESG Rating Provider	USA	-	Survey	Market coverage: > 7,000 firms
ESG Rating Provider	USA	-	Survey	Market coverage: > 11,000 firms
ESG Rating Provider	USA	-	Survey	Market coverage: > 20,000 firms
ESG Rating Provider	USA	-	Survey	-
ESG Rating Provider	USA	-	Survey	Market coverage: > 7,000 firms
ESG Rating Provider	USA	-	Interview	Market coverage: > 7,000 firms
ESG Rating Provider	USA	-	Survey	Market coverage: > 11,000 firms
ESG Rating Provider	USA	Sustainalytics	Survey	
Sell-Side Broker	Australia	-	Survey	
Sell-Side Broker	Finland	-	Survey	Research department of the largest Scandinavian bank.
Sell-Side Broker	France	-	Interview	Major bank
Sell-Side Broker	Germany	-	Survey	The bank has one of Europe's largest research teams, covering more than 850 companies.
Sell-Side Broker	Germany	-	Survey	
Sell-Side Broker	UK	-	Survey	Global research provider with over 300 analysts across 20 countries
Sell-Side Broker	UK	-	Interview	Universal bank
Sell-Side Broker	USA	-	Survey	-
Expert	Australia	Sebastian Vanderzeil, Strabo Rivers	Survey	
Expert	Austria	Marie-Josée Privyk, FinComm Services	Survey	
Expert	Canada	Aequo	Survey	
Expert	Canada	-	Survey	Academic
Expert	France	-	Survey	Engineering and construction company
Sell-Side Broker	France	Autorité des marchés financiers (AMF)		
Expert	France	-	Interview	
Expert	France	-	Survey	-

Type	Domicile	Participant (noting confidentiality)	Form of Participation	Notes on Organisation
Expert	Germany	-	Survey	Investor Association for the promotion of ethical a. sustainable investment
Expert	Germany	-	Survey	Consultancy
Expert	Germany	-	Survey	Institute in area of sustainable investment
Expert	Hungary	-	Survey	Stock Exchange
Expert	Hungary	-	Survey	Consultancy.
Expert	Italy	-	Survey	Platform for sustainable investment
Expert	Netherlands	-	Interview	Consultancy
Expert	Netherlands	SustFin	Survey	
Expert	Netherlands	-	Survey	Independent Consultant
Expert	Netherlands	Sustainable Screening	Survey	
Expert	Netherlands	Willem Schramade, Sustainable Finance Factory	Survey	
Expert	Sweden	Swedwatch	Survey	
Expert	Sweden	NJORD Consulting AB	Survey	
Expert	Switzerland	Blue Phoenix	Survey	
Expert	Switzerland	-	Survey	Consultancy
Expert	Switzerland	-	Survey	
Expert	UK	-	Survey	Stock Exchange
Expert	UK	-	Survey	Independent consultant
Expert	UK	-	Survey	Global consultancy
Expert	UK	Partnership Capital	Survey	
Expert	UK	-	Survey	Specialist developer, sponsor and investor
Expert	UK	-	Survey	-
Expert	UK	-	Survey	Independent consultant
Expert	UK	-	Survey	Community platform provider
Expert	UK	Matt Moscardi, Free Float Media	Interview	
Expert	UK	Ario Advisory	Survey	
Expert	UK	Discern Sustainability Limited	Survey	
Expert	UK	Nick Spencer, Gordian Advice	Survey	
Expert	UK	-	Survey	-
Expert	UK	-	Survey	Independent Consultant
Expert	UK	Robert G. Eccles, Said Business School	Survey	

Type	Domicile	Participant (noting confidentiality)	Form of Participation	Notes on Organisation
Expert	UK	Rory Sullivan, Rory Sullivan Consulting	Survey	
Expert	USA	-	Interview	Consultancy
Expert	USA	Dmitriy Ioselevich, 17 Communications	Survey	
Expert	USA	-	Survey	Consultancy
Expert	USA	John Schaetzl, GE Asset Management	Survey	
Expert	USA	Marcela Pinilla, Business for Social Responsibility	Survey	
Expert	USA	Mark Tulay, Sustainability Risk Advisors	Interview	
Company*	Austria	OMV	Survey	
Company	Austria	-	Survey	Steel manufacturer
Company	Austria	-	Survey	Packaging and paper products manufacturer
Company	Belgium	-	Survey	
Company	Denmark	-	Survey	Healthcare and biotechnology
Company*	Denmark	-	Survey	Global conglomerate involved in global trade, shipping, and energy
Company	Finland	-	Survey	Paper & Paper Products
Company	Finland	-	Survey	Energy company
Company*	France	-	Interview	Oil & Gas sector
Company	France	-	Interview	Aerospace & Defence
Company	France	-	Survey	Utilities sector
Company*	France	-	Interview	Leading global automobile sector manufacturer
Company*	France	-	Survey	Pharmaceuticals sector
Company	France	-	Survey	Beverages
Company*	France	-	Interview	Multiformat retailer
Company	France	-	Survey	Manufactures and distributes consumer products
Company	France	-	Survey	Banking
Company	France	-	Survey	Aerospace & Defence
Company	France	-	Survey	Specialty Industrial Machinery
Company*	Germany	-	Survey	Leading athletics apparel, footwear, accessories and sports equipment
Company	Germany	-	Survey	Supply, trading, and logistics of energy and chemical products.
Company	Germany	-	Survey	Leading menswear apparel brand
Company	Germany	-	Survey	Food, beverage and pharmaceutical industries.

Type	Domicile	Participant (noting confidentiality)	Form of Participation	Notes on Organisation
Company	Germany	-	Interview	Market leader in chemical products
Company*	Germany	-	Survey	Healthcare and agriculture conglomerate
Company*	Germany	-	Survey	Leading global building materials manufacturer
Company	Germany	-	Interview	Farm & Heavy Construction Machinery
Company*	Germany	-	Survey	Automobile sector manufacturer
Company	Germany	-	Survey	Sugar Producer
Company	Germany	-	Survey	Technology and Semiconductors sector leader
Company	Germany	-	Survey	Telecom Services leader
Company*	Germany	-	Survey	Leading automobile sector manufacturer
Company*	Germany	-	Survey	Leading Automobile sector manufacturer
Company	Germany	Olivier Elamine, Alstria	Survey	
Company	Germany	-	Survey	Utilities sector leader
Company	Germany	-	Survey	Leading automobile sector manufacturer
Company	Germany	-	Survey	Leading manufacturers and distributors of lighting fixtures and products,
Company*	Germany	-	Survey	Leading household and personal products manufacturer
Company	Ireland	-	Survey	
Company	Ireland	-	Survey	Leading building materials company
Company	Luxembourg	-	Survey	Leading consumer metal packaging manufacturer
Company	Netherlands	-	Survey	Leading supplier of high-performance supplies to automotive market.
Company	Netherlands	-	Interview	Consumer goods sector leader
Company	Netherlands	-	Interview	One of the world's largest paint and coatings producers
Company	Netherlands	-	Survey	Global industrial company
Company*	Netherlands	-	Survey	Diversified household and personal product and packaged-food and refreshments company
Company	Norway	-	Interview	Leading integrated oil and gas company
Company	Portugal	-	Survey	Banking sector
Company*	Spain	-	Survey	Leading energy and utilities company
Company	Spain	-	Survey	Leading telecommunications sector company

Type	Domicile	Participant (noting confidentiality)	Form of Participation	Notes on Organisation
Company*	Spain	-	Survey	Leading integrated oil & gas company
Company	Switzerland	-	Survey	Global chemicals manufacturer
Company	Switzerland	-	Survey	Global manufacturer of specialty chemicals.
Company	Switzerland	Ernest Barcelo, Omya	Survey	
Company	Switzerland	-	Interview	
Company	Switzerland	-	Survey	Global leading specialty industrial machinery supplier
Company	Switzerland	-	Interview	Global leading chemicals sector company
Company	Switzerland	-	Survey	Leading global commodity trader
Company	Switzerland	-	Survey	Banking sector
Company	UK	-	Survey	Private company association
Company	UK	-	Interview	Global leading integrated oil and gas company
Company	UK	-	Survey	Bank sector
Company	USA	-	Survey	Global tobacco sector company
Company	USA	-	Survey	
Company	USA	-	Interview	Global leader in crop chemicals products
NGO	Australia	-	Survey	
NGO	Belgium	Luca Bonaccorsi, Transport & Environment	Interview	
NGO	UK	ShareAction	Interview	
NGO	USA	-	Survey	NGO research platform

* These companies are among the top 100 EU-based companies by revenue

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