

MEMO# 33742

August 31, 2021

Comments Requested - Draft Response to IOSCO Consultation on ESG Ratings and Data Providers - Please Comment by 6 September COB

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TO: ESG Task Force

EU ESG Disclosure Regulation Working Group RE: Comments Requested - Draft Response to IOSCO Consultation on ESG Ratings and Data Providers - Please Comment by 6 September COB

Attached for your comments is our draft response to IOSCO consultation on ESG ratings and data providers. Please provide your comments on the attached by 6 September, to adriggs@ici.org. (Also attached for your reference is a brief summary of IOSCO Consultation Paper, along with a summary of 10 recommendations).

Our letter makes the following points:

- ***Regulatory intervention in the ESG ratings and data market is premature but the report's recommendations can serve as a foundation for developing the industry's code of conduct for ESG ratings and data providers, to be created by market participants.*** There is no market failure that necessitates a regulatory action, as evidenced by the findings in the Consultation Report, but we support the idea of the industry-developed code of conduct, which generally can be based on the report's high-level recommendations for the for ESG data and ratings providers. The code of conduct should be developed by market participants rather than by IOSCO whose members generally do not have oversight powers over the ESG ratings and data providers.
- ***To be effective, the recommendations (and the code of conduct) should focus on the ESG ratings and data providers, rather than trying to address the entire ecosystem of market relationships.*** For example, we suggest removing Recommendation 7 (directed at financial market participants who use ESG ratings and data providers) and Recommendation 10 (directed to entities subject to assessment by ESG ratings and data providers).

- ***The report's recommendations for the ESG ratings and data providers on transparency, conflicts of interest, and error correction should be clarified and strengthened.*** We suggest clarifying and strengthening the recommendations' language, particularly around transparency about a product's objective and methodologies (and their consistent application), conflicts of interest, and error correction.

Separately from the input on the proposed recommendations, IOSCO requested input on whether the recommendations should differentiate between ESG ratings providers and ESG data providers. At this time, the draft states that our members support the same recommendations for both. We do recommend that IOSCO should clarify that the proposed recommendations are designed to apply only to external commercial ESG ratings and data products intended for sale to third parties, and that they do not intend to apply to ESG ratings that asset managers may create internally for internal use.

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