

**MEMO# 33922**

November 24, 2021

# **IOSCO Publishes Recommendations Regarding ESG Ratings and Data Product Providers**

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TO: ICI Members

ICI Global Members

ESG Task Force

EU ESG Disclosure Regulation Working Group SUBJECTS: ESG

International/Global RE: IOSCO Publishes Recommendations Regarding ESG Ratings and Data Product Providers

On 23 November 2021, the Board of the International Organization of Securities Commissions (IOSCO) published final report (Final Report), containing ten recommendations applicable to ESG Ratings and Data Product Providers.[\[1\]](#) The Final Report builds on the IOSCO's earlier fact-finding exercise and the July 2021 public consultation,[\[2\]](#) to which ICI submitted a response.[\[3\]](#)

The Final Report reflects the comments received on the consultation and largely tracks the proposed report, identifying the same areas for improvement and retaining the structure of ten proposed recommendations: one addressed to regulators, five to ESG ratings and data product providers, one to users of ESG ratings and products, and three deal with interactions and engagement between providers and entities subject to assessment. The high-level recommendations are supported by guidance items for each high-level recommendation (referred to as action points in the consultation). The Final Report also includes revised definitions for "ESG data products" and "ESG ratings."

## **Revised Definitions**

The Final Report provides the following revised definitions:

- ESG data products: refer to the broad spectrum of data products that are marketed as providing either a specific E, S, or G focus or a holistic ESG focus on an entity, financial instrument, product or company's ESG profile or characteristics or exposure to ESG, climatic or environmental risks or impact on society and the environment, whether or not they are explicitly labelled as "ESG data products."

- ESG ratings: refer to the broad spectrum of ratings products that are marketed as providing an opinion regarding an entity a financial instrument or a product, a company's ESG profile or characteristics or exposure to ESG, climatic or environmental risks or impact on society and the environment that are issued using a defined ranking system of rating categories, whether or not these are explicitly labelled as "ESG ratings."

## **Brief Overview of the Recommendations**[\[4\]](#)

### ***Recommendation to Regulators (Recommendation 1)***

The recommendation suggests that regulators could consider focusing greater attention on the use of ESG ratings and data products and the activities of ESG rating and data products providers in their jurisdictions (Recommendation 1). The underlying guidance identifies specific items regulators could consider when developing their framework. The guidance also suggests that regulators could consider whether there are opportunities to encourage industry participants to develop and follow voluntary common industry standards or codes of conduct.

### ***Recommendations for Providers (Recommendations 2-6)***

The set of recommendations addressed to ESG ratings and data products providers sets out that they could consider a number of factors related to issuing high quality ratings and data products, including publicly disclosed data sources, defined methodologies, management of conflicts of interest, high levels of transparency, and handling confidential information. The final recommendations specifically suggest that the providers should adopt relevant written policies and procedures.

### ***Recommendation to Users (Recommendation 7)***

This recommendation suggests that users of ESG ratings and data products could consider conducting due diligence on the ESG ratings and data products that they use within their internal processes. The final recommendation uses the term "market participants" rather than the consultation's language of "financial market participants."

### ***Recommendations regarding Interaction and Engagement Between Providers and Assessed Entities (8-10)***

The recommendations suggest how ESG ratings and data products providers and entities subject to assessment by ESG ratings and data products providers could consider improving information gathering processes, disclosures and communication between providers and entities subject to assessment.

## **Appendix - Final IOSCO Recommendations**

Recommendation 1: Regulators could consider focusing more attention on the use of ESG ratings and data products and ESG ratings and data products providers that may be subject to their jurisdiction.

Recommendation 2: ESG ratings and data products providers could consider adopting and implementing written procedures designed to help ensure the issuance of high quality ESG ratings and data products based on publicly disclosed data sources where possible and other information sources where necessary, using transparent and defined methodologies.

Recommendation 3: ESG ratings and data products providers could consider adopting and implementing written policies and procedures designed to help ensure their decisions are independent, free from political or economic interference, and appropriately address potential conflicts of interest that may arise from, among other things, the ESG ratings and data products providers' organizational structure, business or financial activities, or the financial interests of the ESG ratings and ESG data products providers and their officers and employees.

Recommendation 4: ESG ratings and data products providers could consider identifying, avoiding or appropriately managing, mitigating and disclosing potential conflicts of interest that may compromise the independence and objectivity of the ESG ratings and ESG data products provider's operations.

Recommendation 5: ESG ratings and data products providers could consider making adequate levels of public disclosure and transparency a priority for their ESG ratings and data products, including their methodologies and processes to enable the users of the product to understand what the product is and how it is produced, including any potential conflicts of interest and while maintaining a balance with respect to proprietary or confidential information, data and methodologies.

Recommendation 6: ESG ratings and data products providers could consider adopting and implementing written policies and procedures designed to address and protect all non-public information received from or communicated to them by any entity, or its agents, related to their ESG ratings and data products, in a manner appropriate in the circumstances.

Recommendation 7: Market participants could consider conducting due diligence or gathering and reviewing information on the ESG ratings and data products that they use in their internal processes. This due diligence or information gathering and review could include an understanding of what is being rated or assessed by the product, how it is being rated or assessed and, limitations and the purposes for which the product is being used.

Recommendation 8: ESG ratings and data products providers could consider improving information gathering processes with entities covered by their products in a manner that leads to more efficient information procurement for both the providers and these entities.

Recommendation 9: Where feasible and appropriate, ESG ratings and data products providers could consider responding to and addressing issues flagged by entities covered by their ESG ratings and data products while maintaining the objectivity of these products.

Recommendation 10: Entities subject to assessment by ESG ratings and data products providers could consider streamlining their disclosure processes for sustainability related information to the extent possible, bearing in mind jurisdictions' applicable regulatory and other legal requirements.

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## endnotes

[1] The Final Report is *available at* <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

[2] See Memorandum No. 33718, dated 6 August 2021, *available at* <https://www.ici.org/memo33718>.

[3] See Memorandum No. 33770, dated 14 September, *available at* <https://www.ici.org/memo33770>.

[4] See Appendix for a detailed list of recommendations.

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