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International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
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المنظمة الدولية لهيئات الأوراق المالية

IOSCO/MR/20/2021

Madrid, 26 July 2021

IOSCO consults on ESG Ratings and Data Providers

The Board of the International Organization of Securities Commissions (IOSCO) is soliciting feedback on a set of proposed recommendations regarding Environmental, Social and Governance (ESG) Ratings and Data Providers.

The IOSCO Consultation Report on [Environmental, Social and Governance \(ESG\) Ratings and Data Providers](#) (Consultation Report) aims at assisting IOSCO members in understanding the implications of the activities of ESG ratings and data providers and in establishing frameworks to mitigate risks stemming from these activities. In doing so, it proposes a set of recommendations to mitigate these risks and address some of the challenges faced by users of products and services from ESG ratings and data providers, and the companies that are the subject of these ESG ratings and data products.

To inform its work, IOSCO undertook a fact-finding exercise that revealed, amongst other risks and challenges, a lack of transparency about the methodologies underpinning ratings or data products and an often uneven coverage of products offered across industries and geographical areas. IOSCO has observed that this could lead to gaps and inconsistencies when applied to investment strategies and raise concerns around the management of potential conflicts of interest, such as fee structures and insufficient separation of business lines that provide advisory services to issuers to improve their ratings performance.

The market for ESG ratings and data has grown considerably over the past few years due *inter alia* to a lack of consistent information disclosures at the entity level, the increasing interest of investors in ESG products and the legislative and regulatory focus on financial market participants' consideration of the ESG characteristics of potential investments.

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This market, however, currently does not fall within the typical remit of securities regulators, hence leading IOSCO to propose key considerations for securities regulators in this area.

The Consultation Report is an additional piece to the overall framework for sustainability that IOSCO is developing in close coordination with its members and other international organizations. The [*Report on Sustainability-related Issuer Disclosures*](#), published in June, addresses data gaps at the corporate level. The report on [*Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management*](#), also issued in June, focusses on the activities of asset managers as an important agency-model business that channels investor capital into sustainable finance. It underscores the importance of ESG ratings and data products in the decisions made by these asset managers.

Ashley Alder, IOSCO Chair and Chief Executive Officer of the Securities and Futures Commission of Hong Kong, said: *“The use of ESG rating and data products is on the rise but most jurisdictions do not have regulatory frameworks which explicitly cover the providers of these products. Users have signalled that having multiple ESG ratings and data products can cause confusion, raising serious questions about relevance, reliability and greenwashing. The recommendations made in this report are part of our efforts to address the challenges and risks faced by ESG ratings and data providers as well as by the users of these ratings and data products and the companies which are subject to them.”*

Erik Thedéen, Chair of the IOSCO Sustainable Finance Task Force and Director General of Finansinspektionen of Sweden, said: *“We have sought to understand all facets of the challenges and risks that may arise with regards to the use of ESG ratings and data products. This complements our efforts on addressing the lack of reliability and comparability of data at the corporate level and the recommendations we have set out for asset management activities in the field of sustainability. The proposed recommendations comprise a breadth of topics such as improving the reliability, comparability, and interpretability of ESG ratings and data*

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products, transparency of methodology, managing conflicts of interest and the interactions with companies' subject to ESG ratings or data products."

Comments may be submitted on or before 6 September 2021

Notes to the Editor:

1. IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in some 130 jurisdictions, and it continues to expand.
2. The IOSCO Board is the governing and standard-setting body of IOSCO and is made up of 34 securities regulators. Mr. Ashley Alder, the Chief Executive Officer of the Securities and Futures Commission of Hong Kong, is the Chair of the IOSCO Board. The members of the IOSCO Board are the securities regulatory authorities of Argentina, Australia, Bahamas, Belgium, Brazil, China, Egypt, France, Germany, Hong Kong, India, Ireland, Italy, Japan, Kenya, Korea, Malaysia, Mexico, Morocco, Nigeria, Ontario, Pakistan, Portugal, Quebec, Russia, Saudi Arabia, Singapore, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States of America (both the U.S. Commodity Futures Trading Commission and U.S. Securities and Exchange Commission). The Chair of the European Securities and Markets Authority and the Chair of IOSCO's Affiliate Members Consultative Committee are also observers.
3. The Growth and Emerging Markets (GEM) Committee is the largest committee within IOSCO, representing over 75% of the IOSCO's ordinary membership, including 10 of the G20 members. Dr. Mohammed Omran, Executive Chairman of the Financial Regulatory Authority, Egypt is Chair of the GEM Committee. The committee brings members from growth and emerging markets together and communicates members' views and facilitates their contribution across IOSCO and at other global regulatory discussions. The GEM Committee's strategic priorities are focussed, amongst others, on risks and vulnerabilities assessments, policy and development work affecting emerging markets, and regulatory capacity building.
4. IOSCO aims through its permanent structures:
 - to cooperate in developing, implementing and promoting internationally recognized and consistent standards of regulation, oversight and enforcement to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
 - to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in

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enforcement against misconduct and in supervision of markets and market intermediaries; and

- to exchange information at both global and regional levels on their respective experiences to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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