

September 6, 2021

**Re: Public Comment on ESG Ratings and Data Products Providers**

To the Board of IOSCO,

Deutsche Börse Group (DBG) welcomes the opportunity to submit a response to the IOSCO Consultation Report regarding Environmental, Social and Governance (ESG) Ratings and Data Products Providers (the "Report"). The demand for ESG data and services is surging among investors and asset managers looking for sustainable investments. ESG data plays an important role in matching supply and demand for sustainable investment and in facilitating the transition to a more sustainable economy, allowing the optimal allocation of capital to cleaner companies and infrastructures. DBG truly appreciates the efforts by IOSCO, in particular the in-depth analysis and insights provided, as well as the willingness to listen to industry and stakeholders. From the conversations we have had in various fora, it is our understanding that addressing this topic with a global approach is of key importance, and potential policy responses across jurisdictions must be coordinated, hence we see an evident role of IOSCO in this regard.

We hope that sharing our experiences and practices will provide added value in addition to IOSCO's analytical work by contributing from a provider perspective. Therefore, we will in some instances within our response explain in a rather granular way how business is set up, which best practices already exist to ensure data quality/good governance/address market demands etc.

Due to the complementary nature of our businesses within our Group we aim offer a unique perspective to IOSCO and the broader interested audience covering a wide range of IOSCO's recommendations:

- directed to ESG service providers through our ESG data, analytics and service provider Institutional Shareholder Services Inc (ISS) in which we hold a majority stake,
- directed to users of ESG services through our analytics and index provider Qontigo and our derivatives exchange Eurex, as well as
- from a preparer perspective through our own Group reporting.

ISS ESG, the responsible investment arm of ISS, is the world's leading provider of environmental, social, and governance solutions for more than 1,100 global clients spanning asset owners, asset managers, hedge funds, and asset servicing providers. ISS ESG delivers differentiated sustainability services and a suite of solutions to its clients, drawing on a team of more than 460 global professionals with thematic

and sector expertise that underpin our commitment to sustainable finance. With more than 35 years of corporate governance expertise and 25 years of providing in-depth responsible investment research and analytics to include a dedicated global climate research team, ISS ESG has a unique understanding of the requirements of institutional investors. With its comprehensive offering of solutions, ISS ESG enables investors to develop and integrate responsible investing policies and practices, thoughtfully engage portfolio companies on responsible investment issues, and monitor their 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, ISS ESG delivers corporate and country ESG research and ratings, enabling its clients to identify material social and environmental risks and opportunities.

In addition, as one of the largest providers of market infrastructure worldwide, DBG offer a broad range of products and services. For example, we develop market leading ESG indices and analytics solutions via our subsidiary Qontigo (with its brands STOXX, DAX, Axioma) and offer ESG derivatives via our derivatives exchange Eurex.

Last but not least, Deutsche Börse AG as a listed company reports ESG information and is subject to ESG ratings itself. We therefore cover the preparer perspective as well. In this regard it is important to stress that these activities all remain independent and treated separately. Please see response under recommendation 3 and 4, for further information on conflict of interest considerations in this regard.

The rapid developments in the industrial landscape over the last years have enriched the range of services offered by players. Initially, ESG services were limited to the provision of raw environmental, social and governance data, as well as the production of scores, ratings and analyses assessing the non-financial performance of companies. ESG data providers today offer a wide and diverse range of products and services that adapt to the changing needs expressed by clients, primarily financial institutions (including institutional investors and asset managers) and, to a lesser extent, companies. This new offering frequently includes activities such as portfolio analysis, construction of financial indices, or advisory services to companies in defining their ESG strategy. Other more specific activities are less widespread, such as investment fund management, proxy advisory services, or the evaluation and certification of financing products such as green bonds.

Quality ESG data is the lifeblood of ESG investment analysis. Different types of companies have different uses for ESG ratings and ESG data:

- For a large corporation, an ESG rating or data point may provide senior managers with a better understanding of their business risks and potential areas of improvement.
- For banks and insurance companies, ESG data could be used as an input into due diligence and risk management. Both banking and insurance professionals are often responsible for deciding whether to extend a loan or an insurance policy to a particular business, and at what interest rate or insurance premium. These professionals rely on ESG data to evaluate the relevant ESG risks for a business, which can then be used to estimate the chances of a default or a coverage trigger and thereby determine an appropriate risk-return trade-off.
- By far the biggest consumers of ESG ratings and data to-date are institutional investors and investment management firms. This should come as no surprise given that ESG factors are well understood to affect a company's performance, and therefore have the potential to affect an investor's portfolio and financial returns.

In many ways, the increased relevance of ESG ratings has arisen as a result of positive developments in other areas of legislative attention, particularly the requirement for market participants to more systematically take ESG factors into account in their investment decisions and risk management processes. However, we consider that increasing demand for assessments that provide insights on an entity's ESG profile should go hand in hand with safeguards that ensure the information referred to is robust and that assessments are reliable so to prevent the risk of greenwashing.

Nevertheless, the market for ESG ratings and assessments is complex and still developing. The industry is going through a simultaneous process of innovation on the products side and consolidation on the providers' side. As such, any actions in this area need to be carefully calibrated to capture the broad spectrum of existing product offerings, while at the same time leaving room for future innovations.

We hope that you will find our comments and suggestions useful and we are available should you wish to discuss any particular matter in further detail.

The attached annex reflects our response to the specific recommendations in the Report.

Yours sincerely,

**Niels Brab**

Head of Group Regulatory Strategy

Chief Regulatory Officer

Member of the IOSCO Affiliate Members Consultative Committee

Deutsche Börse Group

## Annex

### Section 1 – Proposed Recommendations for IOSCO and IOSCO Members concerning ESG ratings and data products

**Recommendation 1:** Regulators may wish to consider focusing more attention on the use of ESG ratings and data products and ESG ratings and data products providers in their jurisdictions.

The strong growth of responsible investment practices has led to a steep increase in the demand for ESG data and related products and services. Almost all investors now use third party providers for obtaining at least some of their ESG data and analysis, and some investors even predominantly rely on externally processed data and other resources like ESG scores.

Given that ESG ratings and data products play such an important role in investment decision-making, it is paramount that these products are reliable, high quality and transparent. Taking steps to improve the governance, transparency and management of conflicts of interest surrounding these products could in turn contribute to a greater level of confidence in the use of these products within the financial system, supporting a greater up-take in usage while simultaneously protecting investors and ensuring that markets are fair and efficient.

The availability of reliable and high-quality ESG data is also a critical component of ESG ratings and data products and determines to a large extent the quality of the products. Therefore, the lack of reliable, consistent, and comparable ESG standards and disclosures from issuers impacts not only the availability and quality of information that can be used by investors, but also by ESG ratings and data products providers. Current global efforts led by the IFRS Foundation to establish a global baseline for corporate sustainability reporting focused on enterprise value creation and regional developments that introduce or expand corporate ESG standards and disclosure requirements, can help to address this issue, and are particularly welcome. Regulators should continue to support these processes and work to align standards and disclosure requirements for corporates where possible.

From an ESG ratings and data provider perspective, we would like to highlight that transparent, structured, quality assured, evidence-based, independent research and analysis of ESG risks and opportunities are the hallmark of any responsible investment program and both reflect and support expanding and evolving investor considerations and institutional use-cases in incorporating ESG strategies into fundamental analysis. Clients rely on ISS ESG's data and analytical offerings in a number of different ways. Many use the solutions to facilitate a top-down assessment of portfolio risk exposure, from reputational and business risks arising from controversies, such as breaches of global norms, to risks arising from climate change (both physical and transitional). Other clients, meanwhile, use ISS ESG ratings in their bottom-up stock selection, to identify material ESG issues, as well as to measure performance against ESG targets. Knowledge of risk factors, and a deep understanding of how companies mitigate these ESG risks can add a valuable layer to investment analysis.

Investors are not of a single mind with respect to ESG issues and how they incorporate ESG ratings and data into their investment processes. As a result, they seek the advice and support of solutions providers based on an alignment with their investment philosophies and engagement practices. ESG ratings and data is one of many factors considered as part of the investment-decision making process and typically does not unilaterally augment capital allocation and investment decisions. In addition, the use of ESG research and data providers positively assists institutional investors in carrying out their fiduciary

obligations and stewardship responsibilities. The PRI and the CFA Society both point to the fact that there is no “one size fits all” ESG integration approach as implications for ESG investing may differ across asset class, geography, local market practices, ESG footprint/exposure, sector concentration, among other considerations.

So, as regulators consider focusing more attention on the use of ESG ratings and data products, we believe it is critical to avoid taking steps that would undermine the ability of the ratings and data providers to produce and deliver the independent and informed ESG research and analysis necessary to address a rapidly evolving ESG landscape. ESG research providers supply investors with specialized expertise, efficiency, and scale across a variety of complicated global ESG issues and it important that providers retain the ability to continue meeting that critical investor need.

DBG firmly believes it is imperative that research providers develop and deliver their offerings with a high level of independence and transparency, given the importance of ESG ratings and data to investors. In our view, this includes: (1) disclosing publicly conflict of interest policies; (2) leveraging existing industry best practices; and (3) implementing and disclosing governance and operational structures that establish a quality focused infrastructure consisting of internal controls, documentation, quality assurance, escalation procedures, monitoring, and policy development. This imperative also demands transparency regarding the underlying research methodologies as well as the processes by which research and data solutions are produced and delivered. This transparency enables clients to select the tools and services best suited to successfully aid them in implementing their investment strategies. It also provides assurance to the market as a whole, including the companies that are the subjects of ESG ratings and research, as to the efficacy of these offerings.

ISS ESG has developed the following quality assurance approach to ensure that these tenets are reflected in our research offerings:

- **Sound Knowledge-Management Program:** documented reliable structures and processes through business-process mapping and internal dashboards to ensure objectivity and accuracy of research production and implementation
- **Internal Controls:** established internal controls to monitor methodology alignment, accuracy, and completeness of information. This applies to both research content and underlying processes
- **Quality Management:** a process-focused program that leads the knowledge-management and internal control functions within ESG research and sits within ISS ESG’s Methodology team
- **Quality Assurance:** Implementation of a team dedicated to content assurance that is independent of the production teams and randomly samples research to enhance and ensure accuracy, above all else, and that professional standards are met and exceeded
- **Functional and Independent Structures:** The separation and reporting of the ESG Research team from any commercially driven functional teams, including product, sales, and client success
- **Methodology Review Board:** An independent review board that consists of content-focused individuals and which does not involve any commercially focused input into the formulation of research methodology and decision making

ISS ESG promotes transparency and quality in ESG research methodologies and processes and has set up a dedicated publicly accessible website outlining our methodologies and the quality and research processes spanning our various ESG solutions. To help ensure the quality of ISS ESG’s analysis, ISS ESG has a Global ESG Methodology governance structure in place that is responsible for reviewing and updating methodologies in order to keep up with the latest developments and findings in the sustainability domain.

ISS ESG's systematic and comprehensive approach to research utilizes a combination of source-monitoring, data collection, analysis, validation, and verification. Each service employs a specialised and distinct approach designed to ensure near complete coverage across companies, regardless of geography, industry, or company size. The ISS ESG research team conducts systematic source-monitoring to identify relevant information as it becomes available. Assessments undergo a rigorous data collection process, including peer review. In addition, for many data sets, the research team conducts fact-finding dialogue with companies to provide supplementary detail and confirmation of involvement. Finally, a regular update is typically carried out on covered companies annually.

Additionally, ISS ESG's Data Strategy unit is responsible for maintaining data integrity across ESG research areas. ISS ESG's data stewards develop and support transparent standards and processes for data collection and data verification and maintain comprehensive metadata documentation. In addition, ISS ESG's data stewards collaborate closely with an internal team of data scientists to drive accuracy, timeliness, and operational efficiency, and to identify trends through analytical reporting.

Looking at this from the user perspective angle, ESG ratings and data products underpin many ESG indices, and screening criteria for certain ESG-oriented products. For example, in the context of ESG benchmark construction challenges can arise, with the choice of ESG rating provider significantly impacting the constituents of those indices. Considering current growth trends in Europe in sustainable investing and passive investment products such as ETFs, measures aiming to reduce the risk of capital misallocation will become crucial to facilitate the transition to a more sustainable financial system. Similarly, the fact that companies in highly polluting industries can obtain high environmental scores from some ESG rating providers can lead to investor confusion and highlights the need for greater transparency.

For example, we have experienced cases of data that is not consistent with the stated methodologies (for example, the methodology states a certain timeline for updating underlying indicators that is in practice delayed by a year). One of the recommendations by IOSCO is to ensure that it is, which we support. Another challenge is the sometimes missing margin of error/uncertainty. Furthermore, there has been issues around methodological changes by providers, which impair the user experience and sometimes the investment product they offer based of these data.

However, it is important to keep in mind that the fast-moving environment with new scientific findings and recommendations, as well as new regulation also requires regular methodology updates.

## **Section 2 – Proposed Recommendations for ESG ratings and data products providers**

<p><b>Recommendation 2:</b> ESG ratings and data products providers could consider issuing 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.</p>
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We believe the most suitable way forward is to propose high level guidance for ESG ratings and data products providers that is sufficiently flexible to accommodate the developing nature of this market.

The variety of ratings for example mirrors to a large extent the diversified demand coming from multiple types of clients and how the information is put to use. A large majority of asset managers favour such variety, even as many support greater standardisation and transparency.

DBG agrees that ESG ratings and data providers must provide 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. Our response above to Recommendation 1 outlines the

approach that ISS ESG takes to ensure a high level of quality in the products that we offer, as well as the steps we take regarding transparency of methodologies.

With respect to the use of data sources, ISS ESG's general approach is to rely primarily on publicly available data. Data is sourced from publicly available information, including a company's own disclosures and reporting such as proxy statements, reputable news sources, and information made available by governmental and international institutions.

To enhance the quality, credibility, completeness, and usefulness of the ESG assessments for our investor clients, ISS ESG accepts and uses supplementary non-public information which may be relevant for ESG performance assessments. We value non-public supplementary information as an accretive and value-added aspect of our ESG investor research platform.

This approach is considered a key differentiator of ISS ESG research as:

- public reporting on some relevant ESG issues is still at an initial and incomplete stage, particularly for private companies, small and mid-size enterprises, and those in emerging markets;
- new ESG topics and reporting items continue to evolve with emerging voluntary standards and regulation still developing;
- there is a lot of mainly qualitative ESG information relevant to ISS ESG's forward-looking and cutting-edge research, which is already available at the companies in the form of internal documents but in some cases not yet publicly disclosed; and
- non-material information provided by the issuers on proposed or pending remedial action for controversies discussed in any engagement process will need to be considered in a timely manner.

However, to foster transparency and to provide accountability to all other stakeholders, it is our strong preference that all information is made publicly available by companies.

In any event and importantly, ISS ESG does not and will not solicit, accept or use in its research material non-public information (where materiality is defined from a traditional securities law perspective to mean information that has not been adequately disclosed to the general public and which would likely affect the price of a security or where the information, if disclosed, would influence a reasonable investor's decision to purchase, sell or hold an issuers' security).

We therefore welcome global and regional efforts by regulators to improve the reliability, consistency, and comparability of corporate ESG standards and disclosures. These efforts are crucial to increase the availability and quality of ESG data, and by extension the quality of ESG ratings and data products.

**Recommendation 3:** ESG ratings and data products providers could consider ensuring their decisions are, to the best of their knowledge, independent and free from political or economic pressures and from conflicts of interest arising due to 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' employees.

**Recommendation 4:** ESG ratings and data products providers could consider, on a best efforts basis, avoiding activities, procedures or relationships that may compromise or appear to compromise the independence and objectivity of the ESG rating and ESG data products provider's operations or identifying, managing and mitigating the activities that may lead to those compromises.

DGB agrees that ESG ratings and data products providers – like other product and service providers in the financial markets – should have appropriate governance arrangements in place and that offered products and services are free of conflict of interest or other undue influences.

In response to both Recommendations 3 and 4, we would like to highlight that as service provider to institutional investors, ISS understands and takes extremely seriously the potential for actual or perceived conflicts of interest which might impact the integrity of the research and services we provide to our clients. Such potential conflicts of interest need to be effectively managed and mitigated by appropriate measures.

ISS provides its institutional investor clients with extensive information to facilitate that they are fully informed of potential conflicts and the steps that ISS has taken to address them. Among other things, ISS supplies a comprehensive due diligence section on its website to assist clients and prospective clients in fulfilling their own obligations regarding the use of independent, third-party providers of ESG ratings or data products. This section of the ISS website includes an area specifically dedicated to the policies, procedures and practices regarding potential conflicts of interest. In addition, many of ISS' clients conduct their own due diligence regarding the way ISS implements the procedures governing conflicts and perform diligence calls and visits to satisfy themselves that ISS' rules governing conflicts are robust and effectively adhered to.

In general, ISS has identified three primary types of potential conflicts:

- ISS' owners could seek to influence the formulation and application of ISS policies;
- Institutional clients could seek to influence the advice given to other institutional; or
- Corporate issuer clients of ISS' wholly-owned subsidiary, ISS Corporate Solutions, Inc. ("ICS"), could seek to influence the advice given to institutional clients.

Concerning the first potential conflict, Deutsche Börse AG ("DB") owns an approximate 80% stake in ISS HoldCo Inc., the holding company which wholly owns ISS. The remainder of ISS HoldCo Inc. is held by a combination of Genstar Capital ("Genstar") and ISS management. ISS has formally adopted policies on non-interference and potential conflicts of interest related to DB, Genstar, and the board of directors of ISS HoldCo Inc. These policies are intended to establish appropriate standards and procedures to protect the integrity and independence of the research, recommendations, ratings and other analytical offerings ("Research Offerings") produced by ISS and to safeguard the reputations of ISS and its owners.

Among other things, these policies provide that:

- Subject parties (as defined in each applicable policy) may not participate, seek to influence, or have any role in the formulation, development and application of ISS' Research Offerings. In addition, these subject parties will not receive advance notice of any proposed or pending changes to the policy guidelines, methodologies, or standards underlying the Research Offerings of ISS.
- Subject parties may not participate in, seek to influence, or have any role in the formulation, development and application of the policy guidelines, methodologies and standards underling ISS' Research Offerings including, without limitation, the establishment of the methodologies and standards underling the Research Offerings of ISS.

- Subject parties will not receive or be provided with access to copies of, or the analyses and conclusions contained in, any of the Research Offerings of ISS prior to the time that any such offerings are published or disseminated.
- Subject parties will not have access to any data relating to the portfolio, investment strategy or securities holdings of ISS clients.

These policies are publicly available on ISS' website<sup>1</sup>.

Concerning the second potential conflict, ISS is a policy-based organization and uses a series of published methodologies that provide a very practical check and balance to facilitate the integrity and independence of ISS ESG's ratings and data products. ISS research analysts follow these comprehensive policy guidelines when conducting research for the benefit of clients.

The third potential conflict is between ISS' core business for the benefit of institutional investors, and the work of ICS, which sells analytic tools and services directly to issuers. We believe that ICS' work with corporate issuers helps companies better understand the ESG expectations of their shareholder bases and empowers them to enhance their practices, which ultimately benefits all shareholders. At the same time, we understand the potential for conflict that arises when ICS provides advice to an issuer on which ISS ESG provides research coverage, and we therefore take a number of measures to prevent such potential conflict from becoming an actual conflict.

We manage this through a combination of disclosure to clients, consistent and transparent application of methodologies, a robust compliance program and implementation of a firewall designed to prevent information flows around the identity of the ICS clients.

ISS has adopted a Code of Ethics which 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 preventing and disclosing conflicts of interest. In this regard, the Code of Ethics addresses the potential conflicts between the company's research teams and other services provided by subsidiaries or affiliates, conflicts within the institutional advisory business, conflicts arising from an analyst's stock ownership, conflicts in connection with an issuer's review of a draft ISS report, and conflicts generally. In each case, the goal of the Code of Ethics is to prevent conflicts wherever possible, and more generally to manage and disclose potential or actual conflicts.

In addition to its Code of Ethics, ISS has developed a General Code of Conduct. The General Code of Conduct is a broad-based "good practices" code that provides a framework to address general corporate policies and practices that apply to ISS as a global business. The areas covered in the General Code of Conduct include:

- Doing the Right Thing;
- Protecting the Company's Interests;
- Safeguarding and Maintaining Information;
- Treat Others with Dignity and Respect;
- Promote a Safe and Healthy Working Environment;

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<sup>1</sup> See: <http://www.issgovernance.com/compliance/due-diligence-materials/>

- Violations of the General Code of Conduct;
- Reporting Concerns; and
- Compliance Requirements

Employees are trained on the content of these codes and are required to certify their adherence.

ISS has implemented a firewall which includes the physical, functional, and technological separation between ICS and the ISS research function. A key goal of this firewall is to protect against members of ISS' research teams from knowing the identity of ICS' clients. Enabling the research team to work without knowing the identity of ICS' clients is part of our approach to ensuring the objectivity and independence of ISS' research process.

ISS is transparent about its ICS business and the entire business is described in detail on our public website<sup>2</sup>. Additionally, ISS' standard institutional client contract contains disclosures regarding ICS and its work with corporate issuers, and each research report issued by ISS contains a legend indicating that the subject of the analysis or report may be a client of ICS and reminds ISS' institutional clients of how they can inquire about any issuer's use of ICS products and services. Thus, ISS provides institutional clients the ability to obtain information regarding ICS' dealings with corporate issuers, including the amount of compensation that the firm has received or will receive from the issuer.

In supplement of the foregoing, in 2014 ISS adopted a "Policy Regarding Disclosure of Significant Relationships." In brief, this policy includes as "significant" the relationships ISS has with issuers that are clients of ICS and information about those issuers is provided as noted in the prior paragraph.

In addition, the policy also makes provision for disclosure of relationships with clients that are publicly traded institutional investors, as well as clients that act as shareholder proponents, in light of the potential that such a client might use the relationship, and the revenue provided by the client to ISS, to try to exert influence on ISS' research and voting recommendations. Under the circumstances of these relationships, and the nature of the potential conflict, the assessment of whether a relationship is "significant" is subject to a specified threshold of the percentage of overall revenue provided by the subject client. The relationship with DB is also considered "significant" by virtue of it being a majority owner of ISS.

We believe that these disclosures are an effective and transparent way of disclosing to our institutional investor clients without compromising the effectiveness of the ISS firewall. The process provides for full disclosure to clients while also upholding the firewall and arranging that the identity of an ICS client is not known to research analysts as they undertake research.

**Recommendation 5:** ESG ratings and data products providers could consider making high levels of public disclosure and transparency an objective in their ESG ratings and data products, including their methodologies and processes.

As discussed in response to Recommendation 1, DBG agrees with the principle of public disclosure and transparency regarding the underlying research methodologies as well as the processes by which research and data solutions are produced and delivered. At the same time we think it is critically important that

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<sup>2</sup> See: <http://www.issgovernance.com/corporateissuers>

providers have the freedom and flexibility to preserve as they determine appropriate their intellectual property rights in and to their work product and the factors which go into creating that work product.

Looking at ISS ESG, it practices a high level of public transparency across its ESG research solutions and does so in a way that provides all stakeholders with the critical information they need to understand how ISS ESG operates and the basis upon which we generate our analyses, form our conclusions and develop our assessments. For example, for the ISS ESG Corporate Rating, it publicly disclose the measurement objective of the ESG rating, the principal sources of qualitative and quantitative information used in the assessment as well as information on how the absence of information was treated; along with the time horizon of the assessment.

We firmly believe in the value of transparency as a catalyst for selecting the best ESG solutions to support and facilitate investor agendas. Our methodology transparency ensures credible and reproducible results, serves to engage rated/analyzed issuers, and allows for flexible use and customization of deliverables by our investor clients.

**Recommendation 6:** ESG ratings and data products providers could consider maintaining in confidence all non-public information communicated to them by any company, or its agents, related to their ESG ratings and data products, in a manner appropriate in the circumstances.

As discussed in response to Recommendation 2, the data which ISS ESG uses is primarily sourced from publicly available information although ISS ESG will accept and use supplementary non-public information which may be relevant for ESG performance assessments so long as that non-public information is not “material” (from a securities law point of view as outlined above).

With respect to any such non-public information, ISS ESG’s current approach is that we will not distribute to third parties any non-public supplementary information provided by a company. ISS ESG will, however, reference such information in its reports and other offerings.

### **Section 3 – Proposed Recommendation for users of ESG ratings and data products**

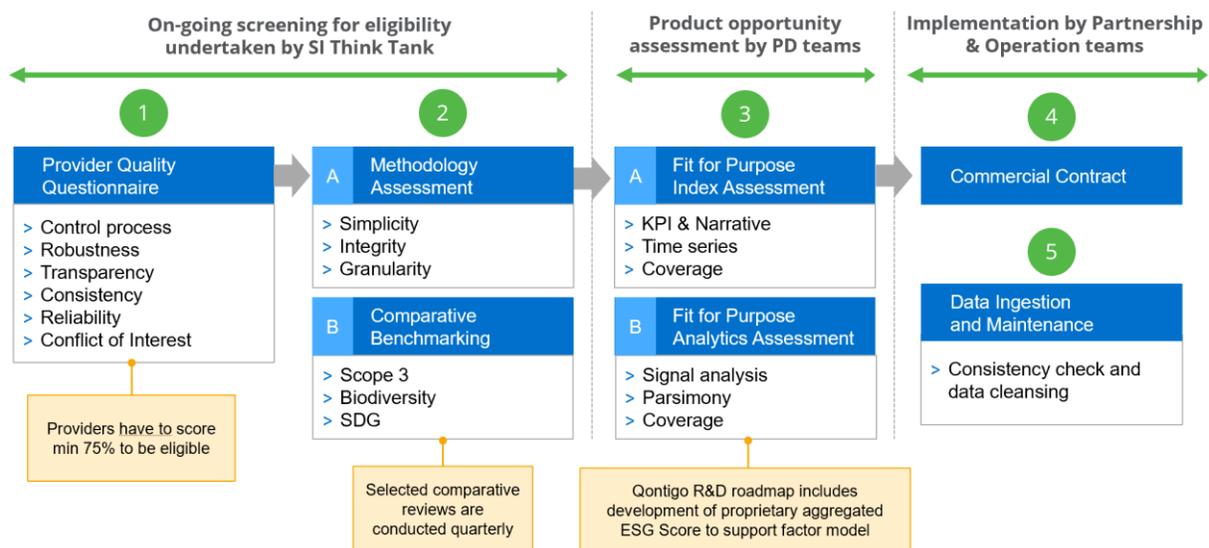
**Recommendation 7:** Financial market participants could consider conducting due diligence on the ESG ratings and data products that they use in their internal processes. This due diligence could include an understanding of what is being rated or assessed by the product, how it is being rated or assessed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

Investors or other users of ESG ratings and data products should ensure they understand the intended purpose and methodology of the product, and to determine whether it is suitable for the purpose for which it is being used in the investment process. Ultimately, investors decide on what ESG information and analysis is incorporated in their investment decisions and therefore bear the responsibility to ensure that any ESG ratings or data products used in the investment process are fit for purpose.

From a provider perspective, as noted in response to Recommendations 3 and 4, ISS provides its clients (and other stakeholders) with a wealth of publicly available information that supports the type of due diligence efforts contemplated by Recommendation 7. In addition to these publicly available materials, ISS supports clients and prospects with due diligence calls and visits, along with more detailed product/methodology documentation to help that clients and prospects fully understand ISS’ internal

processes and the manner in which our offerings are developed, empowering our clients to understand exactly how companies are being rated or assessed and enabling them to properly use our offerings within their own investment processes.

Furthermore, we also agree with the recommendation from a user perspective and conduct such a formalized internal due-diligence process already (please see slide below, outlining how this is conducted within our analytics and index provider Qontigo).



#### Section 4 – Proposed Recommendation on how ESG ratings and data products providers may wish to consider interacting with entities subject to assessment

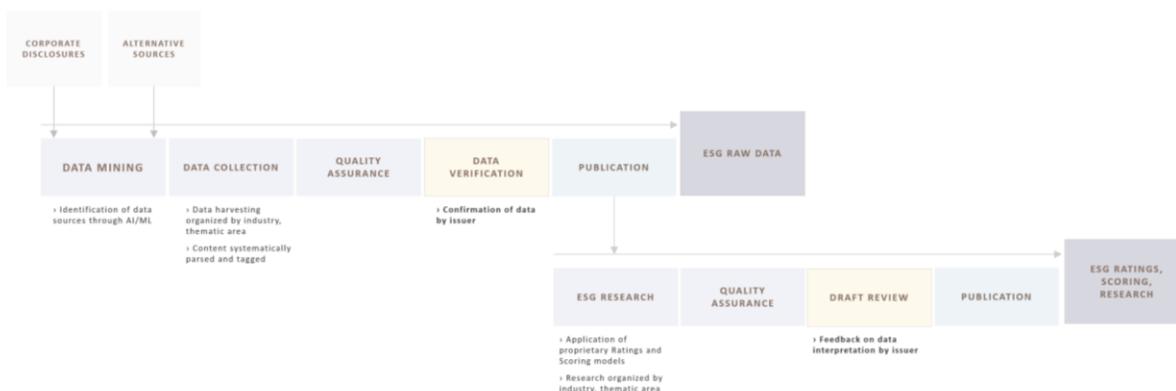
**Recommendation 8:** ESG ratings and data products providers could consider improving information gathering processes with entities covered by their products in a manner that is efficient and leads to more effective outcomes for both the providers and these entities

**Recommendation 9:** 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.

We would like to highlight that ISS ESG takes a measured approach to dialogue with companies and key stakeholders, recognizing the importance of first-hand information and insights, while being cognizant of the need to minimize response burden. During the research phase ISS ESG engages in a targeted dialogue with companies as and if necessary, to seek confirmation that the information obtained from public sources is complete, accurate, and up-to-date. This provides for transparency, and, critically, confirms the validity and relevance of research findings for investment decisions.

A simplified illustration of core data collection and research processes is provided below. Systematic and rigorous quality assurance measures throughout data collection, generally coupled with the submission

of data and ESG draft reports to companies for verification and confirmation of facts, are part of assuring the high quality of our research.



ISS ESG takes an open and transparent approach in relation to corporate issuers and seeks to provide issuers with insight into and understanding of our research processes and methodologies as well as the data and analyses that are integrated into our reports. Questions and feedback can be submitted through our central ESG Helpdesk.

Moreover, through our publicly available document, [Frequently Asked Questions: A Guide for Corporate Issuers](#), companies can obtain further background about our research and details about our processes.

## Section 5 – Proposed Recommendation on how covered entities could consider interacting with ESG ratings and data products providers

**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 regulatory and other legal requirements in their jurisdictions

DBG welcomes the recommendation to issuers to consolidate, publish and update their sustainability information in one dedicated location that is easily and digitally accessible. This would not only help ESG ratings and data products providers, but also make it easier for investors to obtain ‘raw’ ESG data directly from issuers.

The traditional supply of raw data and ratings has developed, with in particular an increase in coverage, both in terms of geography, sector and asset class, and in terms of the historical depth of the data available. However, it is characterized by significant disparities in data collection, reliability and processing, which are at the root of major discrepancies in the non-financial performance assessments produced.

Therefore, from an ESG ratings and data provider perspective, we would like again stress that ISS ESG extensively uses public company reporting as one of the main sources of information. In that context we make the following general observations in response to Recommendation 10: while company reporting has developed and improved over the last several years, there are significant regional differences in terms of comprehensiveness. As our clients are global investors, comparability is of high importance to them (and to us). We therefore welcome initiatives that seek to improve company ESG reporting as well as any

efforts on the international level to harmonize and standardize reporting. What is most vital from our perspective is that information is clear, easy to find, well-structured, timely and comparable across reporting years. A key guiding thought for any reporting regulation should be the understanding that the ultimate goal is clarity and transparency so that investors can properly integrate material information into their investment activities.

Responding from a preparers' perspective, DBG has a dedicated sustainability website, with relevant ESG information and a dedicated part about ESG ratings and ESG reporting, including our latest and past ESG reports. In general, we also support the sharing of the dates of the relevant publications, as well as the timelines for which they are expected to be updated or refreshed. Thus, this is not always possible for the reporting entities, as the deadlines from some ESG rating agencies vary from year to year and also the publication of results do not always follow a standardized timeline. Implementing a dedicated internal point of contact to address any requests from or queries to ESG ratings and data products providers is from our point of view also a useful measure to streamline the process of answering ESG ratings. This measure ensures that ESG-related data are collected and consolidated centrally and that the overall ESG strategy is optimal reflected in the respective rating.