6 September 2021

Kris Nathanail-Brighton
International Organization of Securities Commissions (IOSCO)

Per e-mail: consultation-02-2021@iosco.org

Public Comment on ESG Ratings and Data Products Providers

Dear Ms Nathanail-Brighton,

MSCI[1] welcomes the opportunity to comment on IOSCO's Consultation Report on Environmental, Social and Governance ("ESG") Ratings and Data Products Providers ("the Consultation Report"). We recognise the significant amount of research that IOSCO and the Sustainable Finance Task Force have undertaken in preparing the Consultation Report, including hosting roundtables with stakeholders. As the world transitions to a global sustainable capital market, a convergence of ESG and climate factors will impact the pricing of financial assets and precipitate a large-scale reallocation of capital. ESG investments have recorded significant inflows in recent years with the growth in exchange-traded funds ("ETFs") tracking MSCI ESG equity indexes growing from AUM$1.4bn in 2014 to $164bn in Q2:2021.[2] We expect this trend to continue, driven by the climate crisis creating economic and investment risks and opportunities on an unprecedented scale.

Policymakers have a unique opportunity to incentivise investment into sustainable finance and help shape the market framework to encourage a longer-term assessment of risk. MSCI stands ready to support this market transition. However, we are highly dependent on sourcing good quality underlying raw data, which currently is not globally consistent nor comparable. Recognising this, IOSCO proposed a building blocks approach in its Report on Sustainability-related Issuer Disclosures adopted in June 2021[3] and identified the areas needing more work. We believe that a similar approach should be taken by IOSCO for ESG products and services; that is, adopting a set of industry principles for ESG ratings before considering whether a broader intervention into other services, such as ESG research data products, is necessary or appropriate.[4]

MSCI operates to the highest standards of ethical conduct in our business operations and for the reasons set out in the Consultation Report, it is important that ESG ratings are, and are seen to be, credible. We therefore welcome principles of conduct that create the foundations for ESG rating best practices such as those mentioned below:

[1] MSCI ESG ratings, research and data are produced by MSCI ESG Research LLC, a subsidiary of MSCI Inc.
[2] The Drivers of ESG Returns.
[3] FR04/2021 Report on Sustainability-related Issuer Disclosures.
[4] IOSCO followed this approach in, for example, IOSCO Principles for Financial Benchmarks, IOSCO Code of Conduct Fundamental for CRAs and the IOSCO Principles for Oil Price Reporting Agencies.

- *Conflicts of interest* - MSCI operates under strict policies and procedures that (1) protect against conflicts of interest (arising from, for example, relationships with or pressures from issuers,[5] investors or government officials) impacting our ESG ratings and (2) ensure that our ratings are independent. All employees of our ESG ratings business are trained on, and certify to, our policies and procedures at least annually, with additional targeted training taking place throughout the year.
- *Quality* – We have over 200 analysts globally who analyse data originating from corporate disclosures as well as from media, academic, non-governmental organisations (NGOs), and regulatory and government sources. MSCI has developed significant modelling capabilities which assist in transforming varied sources of unstructured data into derived data and meaningful research insights.
- *Transparency* – We have made important parts of our ESG ratings,[6] ratings process[7] and underlying methodology[8] publicly available at no cost on our website. Our clients have always had access to fully documented methodologies and to regular feedback processes for methodology enhancements.

We have reviewed the Consultation Report and have identified three key areas for consideration by IOSCO:

1. The scope of the final report should be limited to ESG ratings.
2. The independence of ESG ratings should be protected against interference in the ratings and methodologies.
3. In a nascent, rapidly developing market, global principles of conduct for ESG ratings would be more effective than overly prescriptive and point-in-time rules.

1. The scope of the final report should be limited to ESG ratings

The Consultation Report defines ESG ratings as "*…the broad spectrum of ratings and related products in the sustainable finance area that are marketed as providing an assessment of an entity, a financial instrument or a product, a company ESG profile, or characteristics or exposure to ESG, climatic or environmental risks, whether or not these are explicitly labelled as "ESG ratings*"." MSCI supports a clearer definition for the activity that IOSCO wishes to capture. Options could include addressing the long-term financial risk of an entity caused by ESG factors or the positive or negative impact from the rated entity on the broader society and environment. It should not capture other services related to ESG, including data services such as ESG controversies lists[9] (which are similar to, and difficult to distinguish from, news alerts) or business involvement screens[10] (which identify and list companies involved in certain business activities). These data products may be inputs into an ESG rating but do not include an ESG rating and serve different purposes to ratings.

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[5] Issuer refers to an issuer of securities (equity or debt) and may be used interchangeably with "companies" in this letter.
[6] ESG Ratings Corporate Search Tool.
[7] MSCI ESG Ratings Methodology.
[8] MSCI ESG Ratings Methodology.
[9] Designed to provide timely and consistent identifications of ESG controversies involving publicly traded companies and fixed income issuers. See MSCI ESG Research Controversies and Global Norms.
[10] Identification of companies involved in specific business activities. See Business Involvement Methodology Overview.

The definition should capture all ESG ratings that have an external use, including those developed internally by asset managers and used in external publications (but not otherwise "marketed"). Since these ratings are used by investors, they should follow the same principles of conduct as ratings assigned by independent third parties.

MSCI ESG ratings aim to measure a company's resilience to long-term, financially relevant ESG risks. We consider both the negative externalities that companies in an industry generate, which may turn into unanticipated costs for companies in the medium to long term and the ESG issues affecting an industry which may turn into opportunities for companies in the medium to long term. Other ESG ratings may attempt to measure something else, such as the positive or negative impact of the company on its external environment or society.

The disclosure of consistent, comparable and timely ESG quantitative data by issuers will help address the underlying issue with data quality. The underlying issue with data arises, in part, from gaps in disclosure. This is the appropriate place to start with any regulatory intervention. Currently, disclosure of ESG and climate data by issuers is inconsistent and incomplete. Based on our experience, ESG and climate disclosures are most effective when provided by issuers at least annually, and more frequently should they experience a significant change in business. Synchronising ESG/climate and financial disclosures in format and frequency would lower one major barrier for users of company data and assist investors who do not currently receive timely data and data that references the same time periods as financial disclosures. With increased disclosure, estimations by data providers will reduce, or at least be more standardised, and the market will find it easier to compare and evaluate estimated data across providers. For example, rather than focusing on regulating how scope 3 emissions[11] are estimated, requiring issuers to disclose their scope 3 emissions in a consistent manner will eliminate the need for estimations in the first place. With effective disclosure of underlying quantitative data by issuers and enhanced disclosure by ESG rating providers about what an ESG rating is designed to measure, investors will be placed in a better position to understand the ESG risk profile of their investments and benchmark that risk assessment against an independent ESG rating.

Extending the Consultation Report to include "ESG data products" and "ESG data providers" presents a number of challenges:

- **Not feasible to regulate the entire supply chain of raw data**. A regulatory framework that seeks to capture "ESG data products" and/or "ESG data providers" is overly broad and unmanageable. The definition of "ESG data products" in the Glossary of the Consultation Report refers to a broad range of data, raw data, and related products that "*are marketed as providing information relating to an an entity, a financial instrument or a product, a company or an industries' ESG profile, characteristics or exposure to ESG, climatic or environmental risks whether or not they are explicitly labelled as "ESG data products*." This expansive definition would capture a company that publishes information on its own ESG profile, a government agency that tracks and publishes Greenhouse Gas Emissions, a journalist that publishes information on an ESG profile of a company or even a national weather service.
- **The universe of what constitutes "ESG data" is rapidly evolving**. Cybersecurity, political risks, weather models and governance indicators are just a few examples of

[11] GHG Protocol Corporate Standard.

what could be captured as data used for ESG purposes. Defining boundaries and/or devising rules across so many different types of data sources is not feasible and will create an overly broad regulatory framework that is not appropriately tailored, stifles innovation and slows down the rapid evolution of solutions to assist the market in understanding and measuring ESG risk and opportunities.

2. **The independence of ESG ratings should be protected against interference in the ratings and methodologies**

Interference in ESG ratings could manifest in at least two ways:

(i) Interference in an ESG rating outcome by issuers, investors and/or governments

MSCI welcomes the recognition by IOSCO of the need for independence in assigning ESG ratings.[12] MSCI maintains a strong internal culture backed by policies and procedures which protect the independence of MSCI when assigning ESG ratings. We agree that in order to establish integrity in the system, ESG rating providers should proactively identify conflicts of interest and seek to mitigate these conflicts in their business operations. It is also important that ESG rating providers are not placed under any undue pressure by issuers, investors, regulators or government officials in assigning an ESG rating. For example, one could easily imagine a scenario where an ESG rating provider assigns a low ESG rating to an important domestic company only to face significant pressure (perceived or otherwise) from the relevant government to change the rating. Only where ESG rating providers are able to withstand such pressure and publish their truly held opinion without any perception of interference will investors have confidence in the overall transparency and integrity of the rating.

(ii) Interference in the rating methodology or the meaning of an ESG rating

The Consultation Report attempts to identify common terminology for a few important definitions or concepts in the Glossary. We agree that it is important for IOSCO to define the activity it seeks to capture under principles of conduct but would note with caution any attempt to harmonise or standardise ESG ratings, methodologies, models or rating scales. Such an outcome would materially impair the independent judgment and assignment of high quality ESG ratings. A well-functioning market ensures that there are sufficient levels of information published by issuers. As a supplement to their own analysis, investors may refer to ESG ratings as one of many inputs to, or to benchmark, their own assessment. Investors look for a diversity of opinion from these providers, an ability to hold an opinion against the herd, that is best-in-class and is not simply a weighted average of industry views. Measures that specify a harmonised/standardised approach may create a static, inflexible system which is inherently unsuitable for such a rapidly evolving discipline and could ultimately make rating providers less capable of responding to innovations and meeting demands in a continuously evolving market. Over time, diversity of opinion would suffer, and the motivation and ability of ESG rating providers to compete on the basis of improving ESG analysis would be materially eroded. Today, the lack of uniformity in ESG ratings is often described as a weakness; we believe it is a strength that demonstrates the diversity of opinions and methodologies. By analogy, there would be limited utility if all investment advisers came to the same buy/sell/hold determinations in their assessments of securities. Dispersion of views and approaches demonstrates a

[12] Recommendation 3.

dynamic and competitive market where investors have choices to select providers that reflect their perspective or multiple providers to give them varying and diverse inputs. A mandated one-size fits-all approach to ESG ratings would reduce the thoroughness, innovation, insights, effectiveness and evolution of the ratings.

We would welcome additional protection in the final report protecting the independence of ESG ratings from issuers, investors and governmental authorities by inserting an overarching operative provision in the final report that expressly excludes intrusion into the content of the rating opinions and methodologies.

3. **In a nascent, rapidly developing market, global principles of good conduct would be more effective.**

The proposed recommendations in the Consultation Report are sufficiently high-level to serve as regulatory principles for ESG ratings. However, some of the recommended action items are overly granular and unsuited for principles. We understand from the Consultation Report that IOSCO wishes to identify best practices. However, if IOSCO proceeds to publish the principles together with such a level of detail in the final report, it risks freezing the framework in 2021, which would be problematic for such a rapidly evolving sector. It is important that regulators and the markets retain a level of flexibility to react to as-yet-unknown future risks, developments and opportunities and we would propose that the final report takes the form of the recommendations in Annex 2 without the action items currently included in the Consultation Report. IOSCO has taken this principle-based approach in other similar markets, including with benchmarks and credit ratings.

In Annex 1, we have commented on the recommendations in the Consultation Report; Annex 2 provides a consolidated list of the draft recommendations with amendments for ease of use; and in Annex 3 we have completed the table referenced in Annex 2 of the Consultation Report. We look forward to continuing to engage with IOSCO on the Consultation Report. Please do not hesitate to contact us with any queries.

Yours faithfully,

/s

Neil Acres
Managing Director
Head of Government & Regulatory Affairs

Annex 1

Comments on the recommendations in the Consultation Report

In accordance with our comments in the cover letter, we have limited our comments below to the application of the Consultation Report to ESG ratings, unless otherwise stated. As per our cover letter, we recommend the deletion of the action items underlying the recommendations in the final Report but have included commentary and proposed amendments to selected action items should the concept be retained.

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.

We recognise that IOSCO received support to provide guidance that addressed a broad spectrum of ESG ratings and data products, but this does not obviate the need for an in-depth assessment whether regulation is required. The Consultation Report recommendations start with the premise that some form of regulation of ESG ratings is necessary.[13] We believe that the first step should be an in-depth assessment by policymakers as to whether regulation is required for ESG ratings, and, if so, what the scope of application should be. We would rephrase the recommendation as follows:

> ***Recommendation 1:*** *Regulators may wish to consider whether ESG ratings should be subject to a ~~their existing~~ regulatory regime~~s~~ and, if so, the regulatory principles that should apply ~~consider whether they provide sufficient oversight of ESG ratings and data products~~*

IOSCO Code

MSCI would support the development of an IOSCO code or set of principles for ESG ratings, similar to the approach adopted for benchmarks.[14] A code that seeks to establish principles of conduct, management of conflicts of interest and transparency of methodologies would serve an important function in aligning market conduct at a global level in the ESG rating sector.

As discussed in our cover letter, we would not support the third bullet of the third action item which introduces the concept of harmonisation or standardisation of terminology. As discussed in our cover letter, an ESG rating provider should retain the freedom to use terminology it deems appropriate for its ratings provided the terminology is defined in methodologies and disclosed to users of the rating. We propose an amendment in the following terms:

> *the disclosure ~~use~~ of ~~sustainability related and~~ ESG rating ~~and data product~~ terminology to help improve understanding ~~consistency~~ in the use of these terms in the markets ~~ESG rating and data products providers' industry~~*

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[13] Action point 1: "Regulators may wish to consider their existing regulatory regimes and consider whether they *provide sufficient oversight* of ESG ratings and data products" (our emphasis).

[14] IOSCO Principles for Financial Benchmarks.

Recommendation 2: 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.

MSCI supports Recommendation 2 as it relates to ESG ratings with minor amendments proposed below. ESG ratings should be assigned under transparent methodologies which provide a framework for the analysis.

> ***Recommendation 2:*** *ESG rating ~~and data products~~ providers <u>should assign</u> ~~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*.

The action points for Recommendation 2 raise a few concerns:

(i) "*fair and thorough analysis*" (Action item 1, sub-bullet 1)

Investors are not a monolith. That is, there are short investors, long investors, investors who want exposure to fossil fuels and those that do not. What is a fair analysis to one investor may be unfair to another investor. Similarly, what may be fair to an issuer may be unfair to one type of investor or *vice versa*. An MSCI ESG rating reflects the independent opinion of MSCI and we do not consider whether the rating is fair to one investor over an issuer or another investor but assign the rating consistently under our rating methodology. As a means of avoiding the introduction of a potential conflict of interest, we would propose the deletion of the concept of "fair" in the action item.

(ii) "*validation based on historical experience*" (Action item 1, sub-bullet 2)

Using statistical methods to "validate" a methodology is difficult even in circumstances where an outcome is binary. In the case of ESG ratings, there is not a binary outcome but rather an opinion on the inherent risk that may impact a rated entity based on various factors. So, for example, an ESG rating provider may assign a low rating to Mining Company A because that company does not report health and safety incidents or, reports incidents that are extremely high relative to their peers. That Mining Company may not suffer a health and safety incident in the next 5 years. Does that mean the initial ESG rating was wrong? Would any form of back testing or validation change the rating methodology? The answer is probably not. Rather than requiring ESG rating providers to validate their methodologies using statistical techniques that are unsuited for the analysis, we propose that IOSCO recommends the publication of the performance studies of ESG ratings.

MSCI, for example, publishes on the performance of our ratings over time. We analyse the performance of our ESG ratings against a basket of fundamental and price indicators covering three economic transmission channels: cash flow (e.g. profitability), idiosyncratic risk (e.g. drawdowns), and valuation (e.g. volatility, cost of capital).

- Cash-flow channel: Companies with high MSCI ESG ratings on average have historically been more profitable, displayed more stable earnings, and paid higher dividend yields, controlling for other financial factors.

- Idiosyncratic risk channel: Companies with high MSCI ESG ratings have historically shown lower financial drawdown frequencies, controlling for size and industry.
- Valuation channel: Companies with high MSCI ESG ratings have historically shown lower levels of systematic risk and lower costs of capital and, thus, higher levels of valuations.[15]

We propose an amendment to the action item as follows:

> *adopting, implementing and providing transparency around methodologies for their ESG ratings ~~and data products~~ that are rigorous, systematic, applied continuously and~~, for ESG ratings,~~ publish performance studies on a periodic basis ~~subject to some form of validation based on historical experience, where available.~~*

(iii) Surveillance (Action item 1, sub-bullet 5)

ESG ratings, as with most other types of ratings, can be offered as a monitored rating which means the rating is constantly monitored and adjusted to reflect changing circumstances or as a point in time rating which is not monitored and reflects the view of the rating provider on that day. Allowing for this flexibility is important as investors may prefer one type of rating over another depending on their investment objectives. We would propose a minor adjustment to the recommendation so as to allow for both options.

> *monitoring on an ongoing basis, and regularly updating, their ESG ratings ~~and data products~~ except where specifically disclosed that the rating is a point in time rating.*

(iv) Professional competency (Action item 1, sub-bullet 8)

We agree with a principle that an ESG rating provider should ensure that it has sufficient qualified resources to assign ESG ratings. This is covered appropriately in sub-bullet 7. However, sub-bullet 8 of the action item goes further to suggest that there should be some form of additional mandatory requirement that the rating analysts are "competent". In assigning an ESG rating, MSCI does not identify a "lead analyst" who is responsible for the rating because the rating is an MSCI rating. ESG ratings are assigned through a well-defined rating process that includes multiple data inputs which are analysed and collated by a range of teams, which include specialists such as data scientists and information technology experts. Some of these tasks do not require ESG specialisation and requiring mandatory, detailed competency requirements may deter potential highly-skilled employees from joining a rating provider. Given the over-arching requirement in sub-bullet 7 which requires qualified resources which would cover a multi-disciplinary approach to resourcing, we propose the deletion of the sub-bullet 8.

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.

[15] See Guise, Nagy and Lee *Deconstructing ESG Ratings Performance: Risk and Return for E, S, and G by Time Horizon, Sector, and Weighting*. Journal of Portfolio Management, Vol 47, Number 3, February 2021.

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.

MSCI supports Recommendation 3 as it pertains to ESG ratings with amendments to simplify the recommendation and strengthen the protection of ESG ratings from interference as per our cover letter.

> ***Recommendation 3:*** *ESG ratings ~~and data products~~ ~~providers~~ should be influenced only by factors relevant to assessing the ESG risks of the rated entity or security and no public authority, regulator, central bank or other third party should interfere with the ESG methodology or rating. ~~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, as drafted, leads with an encouragement to "avoid" activities, procedures or relationships that may compromise or appear to comprise the independence and objectivity of the ESG rating. The Recommendation concludes with an option to identify, manage and mitigate the risk. Included in the draft text is language around perceived conflicts of interest which is almost impossible to measure because perception can be subjective. Tying a regulatory obligation to such a subjective standard, typically only measurable with the benefit of hindsight, is challenging. Where possible, material conflicts of interest should be avoided but regardless of business model and scope of activities, there will always be potential conflicts of interest in any business. We would propose an amendment as follows:

> ***Recommendation 4:*** *ESG rating~~s 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~~ should identify~~ing~~, avoid, or manage~~ing~~ and mitigate~~ing~~ conflicts of interest ~~or perceived conflicts of interest~~ that may compromise the independence of the ESG rating ~~the activities that may lead to those compromises~~*

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.

MSCI supports the principle in the recommendation as it pertains to ESG ratings with the following proposed amendments:

> ***Recommendation 5:*** *ESG rating providers should disclose sufficient information about the rating process and rating methodologies, so that investors and other users of ratings can understand how a rating was determined ~~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~~*

ESG rating providers should publish rating methodologies that summarise the framework, in sufficient detail, for assigning a rating under that methodology. In addition, the ESG rating provider should explain the meaning of its ESG rating, and an explanation of the rating nomenclature used in the rating process. Users of the ESG rating should be placed in a position to understand, if not necessarily agree with, how the rating was arrived at if they read the methodology and accompanying rating disclosures.

(i) Information to be published in the methodology (Action item 2)

The Consultation Report proposes a level of detail in the action items underlying the recommendation that amounts to prescriptive rules[16] which do not rise to the level of principles. We propose the deletion of the action items.

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.

Where an ESG rating provider uses non-public information sent to it by a rated entity, or its agents, we agree that such information should be protected where it is material non-public information. The use of information provided to an ESG rating provider should be governed by the contractual terms agreed to by the parties to the contract.

> ***Recommendation 6:*** *ESG rating~~s and data products~~ providers should ~~could consider~~ maintain~~ing~~ 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*

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.

When purchasing a product or service, we would expect the purchaser to complete an appropriate assessment of the product or service. This allows the purchaser to have the opportunity to understand the service offering and negotiate commercial terms with the provider.

> ***Recommendation 7:***[17] *Financial market participants sh~~c~~ould consider conducting due diligence on the ESG ratings ~~and data products~~ that they use in their internal processes. This due diligence sh~~c~~ould include an understanding of what is being rated or assessed by*

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[16] For example, relative weighting of criteria in assigning an ESG rating, the scope of business activities and the time horizon of the rating.

[17] Although we have deleted the reference to data products in the recommendation below in accordance with our view that the final report should only apply to ESG ratings, we note that Recommendations 7 and 10 are the only recommendations that may be suitable for ESG data in addition to ESG ratings.

> *the rating ~~product~~, how it is being rated or assessed and, limitations and the purposes for which the rating ~~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 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.

MSCI welcomes increased and more effective engagement with rated entities with regards to their ESG rating, some of whom have, in the past, shown reluctance to engage with ESG rating providers. MSCI has significantly increased our engagement with issuers over the past few years. From 2015 to 2020, the volume of ESG interactions amongst MSCI ACWI IMI Index companies grew from 1,384 (7% of the index) to 14,290 interactions (36% of the index). Issuers have always been encouraged to interact with MSCI with regard to their ratings and we have taken several steps over the last few years to enhance our engagement. In addition to establishing an ESG Issuer Communications team in 2015, in 2019 we introduced a dedicated online portal for issuers, freely available for company representatives to access rating methodologies and an explanation of our research process. Rated entities are also able to download their ESG ratings, and view and comment on the data contributing to their assessment. As of August 2021, more than 10,000 contacts from over 5,200 issuers had engaged with us through the portal. In addition, in 2021 we introduced an ESG Issuer Relations team to oversee the strategic direction of our growing engagements with the issuer community.

MSCI collects information on a dynamic basis which is regularly updated on the issuer portal. Issuers are invited to use our issuer portal and comment on the company-verifiable underlying data that is used in the determination of their rating on an ongoing basis. It is important to highlight that MSCI has an investor-pays model. Issuers do not request or pay for a rating. In this model, we are not mandated under contract with the issuer to assign a rating to the issuer.

Although we support ongoing engagement with rated entities, any interaction with regard to the rating should include, but not be limited to, the rated entity providing material new information and highlighting factual inaccuracies. The procedure should not allow for rated entities to attempt to negotiate or litigate the outcome of the rating decision or to challenge the methodology. Such an approach would lead to endless delays in the publication of rating information to the market and frustrate the utility of the rating for investors. Again, by analogy, an investment bank does not preview its buy/hold/sell opinions with an issuer in advance of publishing the opinion. MSCI publishes material proposed changes to our methodology where investors and issuers are invited to comment on the proposed changes. In this way, we incorporate feedback from the broader market on the framework we use for assigning ESG ratings.

We propose the following amendments to Recommendations 8 and 9:

> ***Recommendation 8:*** *ESG rating~~s and data products~~ providers sh~~c~~ould 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: *Where feasible and appropriate, ESG rating~~s and data products~~ providers shcould consider responding to and addressing issues flagged by entities covered by their ESG ratings ~~and data~~ while maintaining the objectivity of these ratings ~~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 regulatory and other legal requirements in their jurisdictions.

Further to our comment in the cover letter with regards to increased information disclosure by issuers, MSCI supports Recommendation 10 and would find this particularly useful in the information collection process.

Recommendation 10: *Entities subject to assessment by ESG rating~~s and data products~~ providers shcould consider streamlining their disclosure processes for sustainability related information to the extent possible, bearing in mind regulatory and other legal requirements in their jurisdictions*

Annex 2

Proposed amendments to the Recommendations for ESG rating providers

1. Regulators may wish to consider whether ESG ratings should be subject to a ~~their existing~~ regulatory regime~~s~~ and, if so, the regulatory principles that should apply ~~consider whether they provide sufficient oversight of ESG ratings and data products.~~
2. ESG ratings ~~and data products~~ providers should assign ~~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.
3. ESG ratings ~~and data products~~ ~~providers~~ should be influenced only by factors relevant to assessing the ESG risks of the rated entity or security and no public authority, regulator, central bank or other third party should interfere with the ESG methodology or rating. ~~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.~~
4. ESG rating~~s 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~~ should identify~~ing~~, avoid, or manage~~ing~~ and mitigate~~ing~~ conflicts of interest ~~or perceived conflicts of interest~~ that may compromise the independence of the ESG rating ~~the activities that may lead to those compromises.~~
5. ESG rating providers should disclose sufficient information about the rating process and rating methodologies, so that investors and other users of ratings can understand how a rating was determined ~~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.~~
6. ESG rating~~s and data products~~ providers should ~~could consider~~ maintain~~ing~~ 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.
7. Financial market participants sh~~c~~ould consider conducting due diligence on the ESG ratings ~~and data products~~ that they use in their internal processes. This due diligence sh~~c~~ould include an understanding of what is being rated or assessed by the rating ~~product~~, how it is being rated or assessed and, limitations and the purposes for which the rating ~~product~~ is being used.
8. ESG rating~~s and data products~~ providers sh~~c~~ould 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.
9. Where feasible and appropriate, ESG rating~~s and data products~~ providers sh~~c~~ould consider responding to and addressing issues flagged by entities covered by their ESG ratings ~~and data~~ while maintaining the objectivity of these ratings ~~products.~~
10. Entities subject to assessment by ESG rating~~s and data products~~ providers sh~~c~~ould consider streamlining their disclosure processes for sustainability related information to the extent possible, bearing in mind regulatory and other legal requirements in their jurisdictions.

Annex 3

Overview of ESG Rating and Data Products Providers

Overview of ESG Rating and Data Products Providers					
Name of Entity	**Date of Establishment**	**Location of Headquarters**	**Presence in Geographic Regions**	**Overview of Business Lines**	**Website**
MSCI ESG Research LLC	Established in 2016, with predecessor acquired entities dating back to 1990s.	United States	EMEA AMER APAC	**1. ESG Ratings** AI-enhanced and dynamic investment-relevant ESG insights of over 14,800 issuers and 680,000 equity and fixed income securities. **2. ESG Indexes** Over 1,500 equity and fixed income ESG indexes. **3. ESG and Analytics** Integration of ESG and climate research, data and indexes in MSCI analytics applications that support portfolio construction, risk and performance attribution and measurement, and regulatory and investor reporting solutions. **4. Real Estate Climate Solutions** Real Estate Climate Value-at-Risk (Climate VaR), a forward-looking and return-based valuation assessment for individual assets and portfolios.	www.msci.com