



ESG ratings

PERSPECTIVES ON A DRAFT CODE OF CONDUCT

Japan Financial Services Agency

March 3, 2022

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ESG ratings and other products and services



ESG ratings

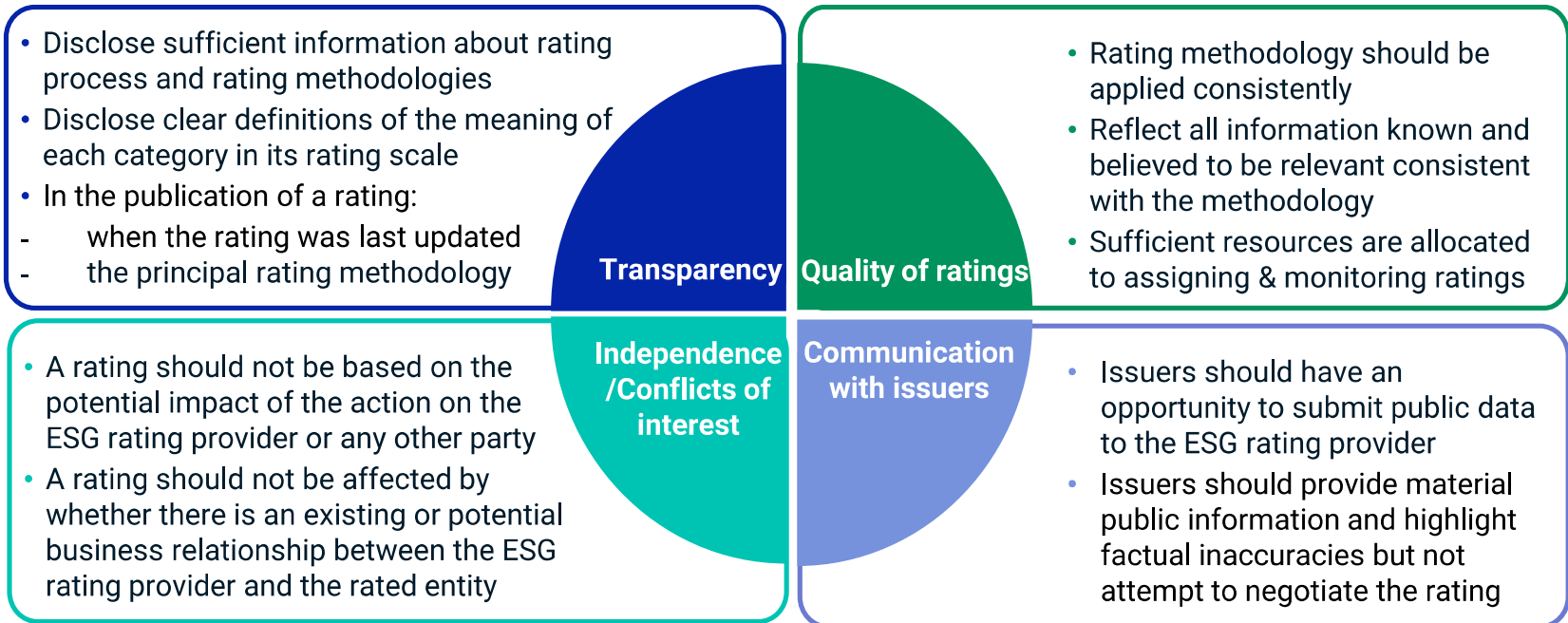
- **Objective:** Assess a company's resilience to long-term, financially relevant ESG risks
- **Measures:**
 - Robustness of governance controls, the foundation of good risk management
 - Exposure to long-term systematic risk factors
 - Management quality & ability to limit event risk



Other products and services (selection)

- **Controversies:** Analyse a company's significant ESG impacts
- **Business Involvement Screens (BISR):** Screening service that enables investors to manage ESG standards and restrictions
- **Climate:** Provides an extensive view of climate change risks and opportunities across multiple dimensions: emissions data, fossil fuel exposure, management assessment and clean technology exposure

Principles of conduct for ESG rating providers



Code should cover ESG ratings but not ALL ESG products



- An ESG ratings provider that provides other products and services should ensure that those other permissible services do not present conflicts to the ratings process
- The Code should not seek to capture other services related to ESG, including data services such as ESG controversies lists (which are similar to, and difficult to distinguish from, news alerts) or business involvement screens (which identify and list companies involved in certain business activities).
 - **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 universe of what constitutes “ESG data” is rapidly evolving.** Cybersecurity, political risks, weather models and governance indicators are just a few examples of 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, will stifle innovation and slow down the rapid evolution of ESG solutions.

Code should protect the independence of ESG ratings

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



Interference in an ESG rating outcome by issuers, investors and/or governments - ESG rating providers should not be placed under any undue pressure by issuers, investors, regulators or government officials in assigning an ESG rating.



Interference in the rating methodology or the meaning of an ESG rating - any attempt to harmonise or standardise ESG ratings, methodologies, models or rating scales would materially impair the independent judgment and assignment of high quality ESG ratings. Investors look for a diversity of opinion from ESG rating providers - not simply a weighted average of industry views.

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