



S&P Global Response to JFSA Questionnaire on ESG related products

S&P Global welcomes the opportunity to provide feedback to the questionnaire of the Japanese Financial Services Agency (JFSA) on ESG related products.

If it would be useful to explore any aspect of our response in more detail please contact David Henry Doyle, Head of Government Affairs & Public Policy, EMEA (davidhenry.doyle@spglobal.com).

11 March 2022

1. Basic Information

Business description, objective, fee model on each ESG-related product you provide (e.g. ESG related rating, data providing services, any form of advisory services)

S&P Global's six business divisions are S&P Global Ratings, S&P Global Market Intelligence, S&P Global Commodity Insights, S&P Global Mobility, S&P Dow Jones Indices, S&P Global Engineering Solutions.

S&P Global has also developed ESG data sets, analytics, and solutions in order to meet changing regulatory and investor demand. We have acquired and further developed some of the most prominent data sources in ESG, climate, and carbon markets including our acquisitions of Trucost (2016) and SAM from RobecoSAM (2020).

In 2021, we announced the launch of a consolidated ESG data and analytics organisation, S&P Global Sustainable1. S&P Global Sustainable 1 is a consolidated and centralized ESG data and analytics group responsible for developing ESG scores, consistent ESG- and Climate-related data sets, and analytics that can be utilized across S&P Global's business divisions. Sustainable 1 is not a division of S&P Global but supports S&P Global's divisions.

ESG Products Provided by S&P Global

As a group, S&P Global currently provides a range of ESG related products. These include ESG Scores, ESG Evaluations, ESG indices, as well as ESG data and research. We also provide Sustainable Financing Opinions including Second Party Opinions and Transaction Evaluations. We anticipate further enhancements as we continue to innovate.

S&P Global has developed a suite of ESG products across its business units. Our core ESG capabilities include:

- Data Intelligence;
- Company analytics;
- Portfolio analytics; - Indices;
- Research and news;
- Data delivery and workflow tools.

As a group, S&P Global currently provides a range of ESG related products and services. These include:

- ESG scores and data;
- ESG Evaluations;
- ESG indices
- Climate indices;
- Climate analytics
- ESG & Climate portfolio analysis;
- Environment and sustainability insights and opinions
- Climate credit analytics;
- Long term 2-degree Celsius warming scenario outlooks
- TCFD reporting
- Positive impact analytics;
- Energy market insights and analytics;
- Energy transition prices, news, and analytics;
- Renewable and clean energy commodity price assessments;
- Global integrated energy model.
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Below we provide a high-level overview of our current product offerings in the ESG scores and ESG evaluations space.

S&P Global ESG Score and Corporate Sustainability Assessment (CSA)

The S&P Global CSA, first established in 1999, is an annual evaluation of companies' sustainability practices, focusing on criteria that are both industry specific, impact-driven and financially material. The CSA addresses ESG with a focus on impact and financial risk. The CSA offers a platform for deep engagement with issuers, gauging comparability on sustainability performance and on upcoming, emerging sustainability challenges that are of interest in the investment community.

The CSA generates a total ESG score for every company covered, as well as individual scores for the three dimensions, with 100 being the best score in each case.

Participation in the CSA is free of charge for all companies that have been invited to take part in the assessment. All of S&P Global's ESG scores are currently provided through the CSA process (over 7,300 to date). Participation in the CSA is free of charge for all companies that have been invited to take part in the assessment. S&P Global makes its ESG scores available publicly on its website. These scores are also made available to the global investment community via S&P Global Market Intelligence's platform.

For further information on our ESG scores please see the following: [Link](#)

S&P Global Ratings ESG Evaluation

S&P Global Ratings ESG Evaluation, first launched in 2019, is an assessment of a company's ESG strategy and a forward-looking, long-term opinion of a company's readiness for disruptive ESG risks and opportunities. The methodology is founded on S&P Global Ratings analysts' sector and company expertise, relying upon in-depth engagement with company management to assess material ESG impacts on the company, past, present, and future. ESG Evaluations are monitored and may be updated by S&P Global Ratings to reflect new data or significant developments.

The Evaluation is based on analytical judgment used to apply a published methodology. It is powered by the expertise of a joint team of sustainable finance and credit analysts, direct face-to-face engagement with the company as part of management meetings, and the in-depth data and insights provided by the S&P Global Corporate Sustainability Assessment (CSA – explained below).

The fee model for the S&P Global Ratings ESG Evaluation is based on the issuer pays fee model and is performed exclusively on a solicited basis. S&P Global Ratings' public ESG Evaluations and Green Evaluations are available on its public website. An ESG Evaluation is released publicly at the entity's request.

S&P Global Trucost Sustainable Development Goals Evaluation

S&P Global Trucost offers a Sustainable Development Goal (SDG) Evaluation tool to enable companies to identify wider business risks and opportunities aligned with the UN SDGs.

A detailed overview of S&P Global's ESG offerings can be found here: [Link](#).

2. Principles and/or Policies in providing ESG-related products in light of: Ensuring transparency of methodologies

Methodological Transparency

We agree with IOSCO's recommendation in the Final Report on ESG Ratings and ESG Data Products that transparent and well-defined methodologies are essential.¹ We believe that both assessed companies and users of ESG ratings and data products should be able to understand the process of how an ESG rating or data product is produced.

S&P Global makes the methodologies of its ESG score and the ESG Evaluation public:

- For more information on the ESG score, please see the CSA methodology: [Link](#).
- For more information on the ESG Evaluation, please see the ESG Evaluation analytical approach: [Link](#).

We believe that a consistent and minimum level of disclosure for ESG rating and data products would enable users to conduct efficient due diligence across providers. In this respect, financial market participants and other users should be able to use published ESG rating and data product methodologies to satisfy this diligence recommendation. This would help mitigate the potential administrative burden for both producers to provide individual responses to due diligence requests and users when completing their due diligence.

However, prescription of a specific methodological approach, detailed methodological disclosures which

¹ IOSCO, Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report – [Link](#)

may not be carried out by the ESG rating provider, or specific criteria weighting through regulation should be avoided as it may stifle positive developments from innovation.

Better quality of data and methodologies, such as securing enough resources

In assessing the market for ESG ratings and data provision it is important to take account of the fact that ESG data and ratings services depend on the quality of corporate disclosures available to all stakeholders generally. Many of the questions about the reliability and comparability of ESG scores and ratings stem from a lack of standardised non-financial disclosure by companies.

For example, IOSCO has found that the “current lack of consistent information at the level of corporate disclosures” remains a significant obstacle for all actors to perform ESG analysis. IOSCO also found that “the lack of standardisation of corporate disclosures therefore impacts the quality and availability of information that can be used by ESG ratings and data products providers”.² Consistent with this finding, IOSCO concludes in a separate report that “there is an urgent need to improve the consistency, comparability, and reliability of sustainability reporting”.³ We agree with these conclusions.

As a user, aggregator, and provider of sustainability related information across our credit ratings, ESG scores, ESG Evaluations, and Sustainable Financing Opinions, benchmarks, and data businesses, we believe that it is important for corporate disclosure to be comparable, reliable, regular, relevant, and accessible. We believe that measures designed to improve corporate disclosure will help ensure that ESG data and research providers have access to a higher quality baseline of information for their analysis.

We recognize that ESG disclosure standards and the analytical work to assess and measure ESG-related risks and opportunities are still evolving and maturing. The existing market standards for ESG reporting available today cover most of the core ESG issues that would be relevant to a broad number of sectors.

However, it can be unclear to companies what exactly they are either being asked or required to disclose and how to disclose on ESG matters. This often means that data which is publicly disclosed is not always adequate to perform detailed, comparable, and up to date analysis and benchmarking of ESG and sustainability performance.

Better disclosure standards will lead to better ESG data. Better and more meaningful ESG data from companies will enable issuers and users of corporate disclosure to identify, compare, and act upon ESG risks and opportunities. A set of standardized minimum data reporting and collection standards for disclosures, using common definitions of Key Performance Indicators (KPIs), could facilitate comparability in this regard.

A core set of metrics for standardised minimum disclosure could allow for greater comparability across sectors and could take the form of a short list of disclosures that companies publish. However, given the rapidly evolving nature of sustainability topics and ESG factors more broadly, we see a clear need for standardised data to be supported by principles-based standards that can be applied across a range of conditions.

² IOSCO, Environmental, Social and Governance (ESG) Ratings and Data Products Providers, Consultation Report, 26 July 2021 - [Link](#)

³ IOSCO, Press Release, 24 February 2021 – [Link](#).

S&P Global believes it is essential for dialogue and international coordination in order to ensure that the positive steps being taken on ESG matters remain aligned with global market practices and regulatory frameworks. One of the most challenging issues in this space is the development of standards which would work in different legal and national contexts.

It is therefore important that policy initiatives are pursued on the basis of coordination. There may be risks of market fragmentation and/or potential regulatory conflicts between jurisdictions if sectoral legislation is changed without appropriate consultation with international partners. We therefore welcome the active international workstreams led by IOSCO and the IFRS Foundation to address the challenges in the disclosure space.

We believe that there is a need for a set of internationally recognized sustainability reporting standards. The initial and primary focus should be on the integration and alignment of existing standards – rather than development of new ones. We also support the IFRS Foundation playing a leading role in cooperation with IOSCO in this regard. The IFRS Foundation’s experience and expertise in developing globally consistent and relevant accounting standards would be an asset in developing a similar international baseline for reporting standards on sustainability.

The establishment of an International Sustainability Standards Board (ISSB) operating under the auspices of the IFRS Foundation and coordinating with IOSCO members would provide positive momentum to developing international alignment and global consistency for sustainability reporting. We support the JFSA playing an active role in these discussions to avoid fragmentation and to help coordinate a path towards greater consensus.

Mitigation and management of potential conflicts of interest

S&P Global separates commercial and analytical functions within its ratings and financial benchmark businesses in order to minimize and manage potential conflicts of interests. However, both commercial and analytical functions can and should be able to interact with clients and potential clients in the course of their duties as long as such interactions are strictly conducted separately from each other as well as being subject to robust compliance and governance arrangements.

Each S&P Global division operates as a separate business with its own executive team, legal and compliance functions. Divisional Independence and Objectivity is also covered by S&P Global’s Code of Business Ethics (COBE) which provides that no employee should be involved in any activity or relationship that might compromise, or appear to compromise, the independence and objectivity of the Company’s products or services.

We strongly support IOSCO’s recommendation that ESG rating and data providers provide their products and services independent and free from political or economic pressures and from conflicts of interest. We agree with IOSCO’s recommendation that a provider’s chosen operational structures should be sufficient to identify, manage and mitigate any conflicts of interest.⁴

We agree with IOSCO that ESG ratings and data product providers should take steps to ensure that their products and services are independent and free from political or economic pressures and from conflicts

⁴ IOSCO, Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report – [Link](#)

of interest. Equally, the independence of ESG ratings and data providers should also be safeguarded from political or economic interference when any regulatory frameworks are being considered in this space.

We believe that both ESG rating and product providers as well as policy makers and regulators have an essential role to play in safeguarding the independence of ESG ratings and data products. In this context, we suggested that IOSCO may wish to consider an explicit statement in its recommendations for policy makers and regulators to refrain from any political or economic pressures on or any methodological interference in the processes or criteria of ESG rating and data product providers.

Unwarranted intervention into the methodologies and / or production practices of ESG rating and data product providers could damage their integrity, stifle innovation, and lead to skewed outputs or misleading information across jurisdictions.

S&P Global ESG Score and Corporate Sustainability Assessment

The S&P Global CSA Methodology Committee oversees the development of the underlying research methodology, including its independence and impartiality. To ensure quality and objectivity of the CSA, S&P Global voluntarily appoints an independent third party to conduct an external audit of the assessment process each year.

Our quality control process involves a comprehensive review of the companies' entire CSA submission or their publicly available data. This includes the review of supporting evidence provided by the company as well as industry comparisons to identify outliers for further corroboration. The review includes multiple layers of quality checks with increasing seniority. Any inconsistency or error found will be corrected by our assessment teams. An independent third-party audit assures the consistency and robustness of the entire CSA process and the results each year.

In addition, S&P Global Sustainable1 has robust compliance, control, and governance arrangements in place to ensure effective management and adherence to internal procedures.

S&P Global Ratings ESG Evaluation

The ESG Evaluation is delivered by a hybrid team composed of sustainable finance experts and credit rating analysts. This allows us to blend ESG analysis with deep sector-level expertise by applying our public ESG Evaluation methodology. This specific methodology went through a development process similar to that of S&P Global Ratings' credit rating methodologies, including market consultation and full public disclosure on our website.

Many of S&P Global Ratings' policies also apply to the production of ESG Evaluations. This includes the separation between analytical and commercial staff, the identification and management of conflicts of interests and the protection of material non-public information. Our ESG Evaluations and the analysts that produce them are subject to the monitoring and assessment of first, second, and third lines of defence functions, including Analytic Quality, Compliance, and Internal Audit.

Communication with evaluated companies

As IOSCO points out in the Consultation Report on ESG Ratings and Data Products, sourcing high quality corporate disclosure remains a challenge for both preparers and users of ESG information, including ESG

rating and data providers. We welcome IOSCO's recommendation for entities subject to ESG rating and data provider products to streamline their disclosure practices.⁵

In S&P Global's case, our Corporate Sustainability Assessment (CSA) behind our ESG score is carried out annually according to a pre-announced calendar in order to provide entities with enough time to complete their data input. If entities have participated in the previous year's CSA, the information will be pre-populated. Separately, our ESG Evaluation is conducted exclusively on a solicited basis which provides for a clear timetable for an entity to provide the requisite data and information.

We believe that a competitive market for ESG ratings and data products has and will continue to stimulate innovations in effective, efficient, and robust information gathering processes in the ESG space. We believe that there is positive momentum at the international level to address the comparability, reliability, accessibility, and useability of ESG disclosure. Preparers, ESG product providers, and policy makers need to work together to solve this challenge.

As recommended by IOSCO, we agree that ESG ratings and data products providers should consider responding to and addressing issues flagged by entities covered by their ESG ratings and data products while maintaining the objectivity of their products. However, providers would need to have the flexibility to respond as appropriate and to the extent consistent with their independence and applicable methodologies.

3. Your views on the following items

Please provide if you would like to highlight any important issues other than the above when we discuss code of conducts for ESG rating and data providers and the roles expected for companies and investors, etc. at the Technical Committee for ESG Rating and Data Providers.

At S&P Global, we have developed ESG data sets, analytics, and solutions in order to meet changing regulatory and investor demand. S&P Global believes that all providers of ESG ratings and data products should strive for the highest possible level of quality in their ESG ratings and data products. A competitive market for ESG ratings and data products will enable users of these products to determine which providers meet the highest standards.

However, as we noted in the context of IOSCO's Workstream on ESG Ratings & Data Products, "high quality" should be measured against the design and governance specifications of the ESG rating or data point at the time of its production. High quality ESG ratings and data products should result from high quality production practices, including robust governance arrangements, data quality controls, methodological transparency, as well as management and disclosure of any potential conflicts of interest.

Financial market participants already conduct minimum due diligence assessments on providers of data, services, and information in order to determine their quality, production process, and useability. This process of due diligence likely also includes a determination of the relevance of the various ESG ratings on offer in the market to the needs of that particular financial market participant. We believe that existing practice in performing due diligence by financial market participants should be no different for ESG ratings and data products.

⁵ IOSCO, Environmental, Social and Governance (ESG) Ratings and Data Products Providers, Consultation Report, 26 July 2021 - [Link](#)

We note the importance of the roles to be played by investors as users of ESG rating and data services as well as companies who are the subject of evaluation and database, in order to develop the capital market in a healthy manner. Please provide if you have any thoughts or comments on this point.

S&P Global believes that high quality information is essential for well-functioning capital markets. This is why we advocate for international standards on ESG disclosure. We therefore welcome dialogue between policy makers and ESG product providers. The work of IOSCO's Sustainable Finance Taskforce has been a useful international forum to discuss these topics, including the JFSA's leadership of Workstream 3 on ESG Ratings and Data Products.

We welcome IOSCO's final recommendations in this space which focus on the promotion of high quality ESG ratings and data products. Generally, S&P Global believes that the IOSCO recommendations present a sensible, proportionate, and principle-based approach to the evolving market for ESG ratings and data products. We agree with IOSCO that best practices in this area should include a minimum level of transparency of ESG rating and product methodologies, management of conflicts of interest, and appropriate governance arrangements by providers.

We believe that it is important to recognise the dynamic nature of the market for ESG data, scores, and ratings as well as the need for continued innovation. The availability of a diverse range of providers will enable innovation and ensure that users are able to choose based on quality and transparency. Equally, as the market for ESG analysis is still developing, it would be important to take a proportionate approach in order not to stifle innovation and competition beneficial to the markets and to the mitigation of the underlying environmental impacts.

The market for ESG research has many actors and is multifaceted. This market is also relatively new and features a diverse range of service providers and products. Some entities active within this market provide a variety of services and products based on holistic ESG analysis of a company. However, others focus and specialise on one particular aspect of ESG (including a potential focus on a specific ESG factor). We believe that as the market continues to develop it is important for investors, ESG rating providers, and ESG data providers to continue to compete and innovate to provide benefits and meet evolving needs.

We believe that it is also vitally important for ESG rating providers and their methodologies to maintain their independence. Prescription of a specific methodological approach or criteria weighting through regulation should be avoided.

Should policy makers choose to pursue further action in this area we would advocate for a proportionate approach focused on:

- Robust governance arrangements;
- Methodological transparency;
- Data quality controls; and
- Management and disclosure of any potential conflicts of interest.