

April 11, 2022

Financial Services Agency

Comments made at the Technical Committee

Objectives of this report and the Code of Conduct

- How could development of the Code of Conduct affect the sound development of capital markets? In particular, it is important to consider what kind of effect it will have on companies and investors if there is an error in ESG rating or data, and what kind of standards are necessary to avoid it.
- In financial markets, there is a growing movement to use ESG information and assessments, such as GHG emissions, to make investment decisions and support investment decisions. Assessments and data are important in price formation.

Scope of the report

- From the perspective of promoting finance to enhance the sustainable growth of society, it is important to capture the entire ecosystem related to ESG investment. In addition to the Code of Conduct concerning ESG rating and data providers, the roles expected for investors and companies should be included in a report.

Topics to be discussed

- ⇒ **The Technical Committee has been engaged in discussions to improve the quality of ESG rating and data and ensure that ESG-related rating and data are used reliably throughout the entire investment chain. It would be important to ensure to incorporate ESG initiatives and sustainable economic growth by improving the quality and reliability of ESG data and assessments through the formulation of the Committee's report and the Code of Conduct. Are there any other important points?**
- ⇒ **From this point of view, would it be conceivable that report should not be limited to the Code of Conduct for ESG rating and data providers, but should be comprehensively compiled to include matters expected for companies and investors.**

Comments made at the Technical Committee

Positioning of the Code of Conduct for ESG rating and data providers

- The Code of Conduct should be such that free competition functions can be appropriately exercised.
- Regulations that are excessively detailed may hinder the innovation of the providers and the market as a whole, and possibly the independence of the assessment. Therefore principle-based corresponding to the IOSCO report would be preferable.

Updating the Code of Conduct

- The market is still developing, and investors, financial institutions, and issuers may be at a stage where mutual understanding is developing on the appropriate practices of providers. the Code of Conduct may start as principle-based, and then could become detailed accordingly.
- The criteria, methodology and results of ESG rating will change on an ongoing basis. The Code of Conduct should also be considered based on these assumptions.

Topics to be discussed

- ⇒ **Based on the premise that market trends related to ESG rating will change significantly in the future, would it be reasonable to develop the Code of Conduct based on IOSCO's principle-based Report, incorporating at the same time extra issues as necessary.**

Comments made at the Technical Committee

Changes in roles expected for ESG rating and data providers

- It is expected that corporate disclosure will be enhanced domestically and internationally. As data improves, the role of data collection may relatively diminish compared to the past. The added value would rather shift to analysis including non-public information.
- In practice, although data has been improved, the media and methods of ESG information disclosure are still diverse, and the ability to obtain and analyze publicly available information remains important.
- There would be both two areas in future market development. One would be area being increasingly standardized or platformized due to enhancement of corporate disclosure. The other would be where experts' expertise remain and provide added values. It would be advisable to compile the Code of Conduct with both aspects in mind.

Differences in business models

- In general, the Subscriber Pay model and the Issuer Pay model are very different in the terms of business of providers, so it is necessary to discuss them separately.
- Even in project evaluations such as evaluation for bonds it is necessary to take into account efforts made by an entire organization rather than just focusing on a single project. As such, some elements of the Subscriber Pay model and the Issuer Pay model are approaching. Sustainable finance may play a role in bridging the bond and stock markets by bringing project (bond) evaluations closer to corporate entity (stock) evaluations.

Topics to be discussed

- ⇒ **As the ESG market as a whole is in the process of development, ESG rating and data providers who collect, analyze, and evaluate corporates' ESG data are still of great importance. Would it be desirable to retain flexibly in view of future changes in the market, such as enhancement of ESG data and accompanying changes in market structure or service provision?**
- ⇒ **As the roles of both Issuer Pay and Subscriber Pay models are essential for the development of the sustainable finance market, would it be desirable to encompass both models? As there appear to be, if based on the IOSCO report, many contents that could include both models, are there special contents or items that should not be covered or should be added when one of the models is concerned?**

Comments made at the Technical Committee

- As global discussions are advancing on standards, codes or regulations for ESG rating and data providers, it is advisable to actively disseminate the report to the public, including overseas.
- As many ESG rating and data providers are active world-wide, how should we disseminate the Code of Conduct formulated in Japan to those global-based providers?

Topics to be discussed

- ⇒ **It would be important to actively disseminate the Report domestically and internationally to ESG rating and data providers, as well as investors, companies, and a wide range of other market participants, in both Japanese and English. What else can be done for that purpose?**
- ⇒ **With regard to the Code of Conduct, is it possible to broadly call for support from ESG rating and data providers in the Japanese market, and if they support it, request them to comply with each item of the Code of Conduct or to clarify with reasoning that they do not comply with it (so-called “compliance or explain”)?**
- ⇒ **Could the content of the Code of Conduct based on the IOSCO report as a basis for international cooperation, and at the same time, should the report and the Code of Conduct be disseminated, including to IOSCO and national authorities and other members of international communities, to encourage actions that are mutually in step?**

Comments made at the Technical Committee

Handling of ESG data

- With regard to ESG data, it is difficult to draw a line as to what extent it will be included. At this stage, it would be better to assess market trends and expand the scope of coverage in the next stage.
- The importance of data such as CO2 emissions is increasing, and the data has become a social infrastructure for developing strategies for achieving net-zero. Ensuring accuracy and availability of data is of vital importance.
- In general, the line between rating and data is not always clear, for example, indicators of compliance with the Paris Agreement in fact include an element of rating in data. It would be difficult to treat ESG data separately from ESG rating.
- Data is an essential infrastructure and needs to be encompassed to the Code of Conduct. However, the Code of Conduct would preferably include contents that lead to transparency in the methodology of data collection and usage, as well as those facilitating companies' disclosure, rather than regulation-like contents that might hinder innovation.
- The IOSCO report does not distinguish between ESG rating and data providers, but rather treat them comprehensively. If a similar code of conduct is to be developed in Japan, there seems to be no necessity for such distinction.

Non-profit corporations, etc.

- Regarding ESG rating, there are ratings and rankings by international NGOs as well as private companies. As some of them have strong influence and are also used for engagement, they should basically be covered.

Topics to be discussed

- ⇒ **Given the importance of ESG data, which forms the basis of ESG rating, ensuring data quality is an urgent issue. And if so, would data be equally included in the Code of Conduct? What would be specific challenges when the IOSCO principle-based report is used as a basis and when data provision is covered?**
- ⇒ **If organizations that provide ESG rating and data in Japan as a regular course of business, including non-profit organizations, are to be covered by the Code of Conduct, what specific points should be noted in terms of scope and definition?**

Comments made at the Technical Committee

Significance and expectations of ESG rating and data providers

- ESG rating and data providers have provided added value to the market by providing multifaceted perspectives in the field of ESG, raising awareness to a wide range of issues, such as opportunities and risks that investors had not been aware in the past. They are expected to continue to do so.
- The role of ESG rating and data providers to foster innovation will continue to be important for the development of the market as a whole, and it would be good if the Code of Conduct has an effect of supporting this role.
- ESG ratings play very beneficial roles in the society if and when they are encouraging companies and investors to change their courses of behavior.

Differences in rating results

- It is not a problem that rating results vary among rating providers. Rather, it is important to clarify what exactly a particular rating is assessing.
- From the perspective of companies, it is understandable that rating differs depending on the way of thinking and values of rating providers. Having and knowing different ratings would encourage wider recognition on various values and points of view. The problem is some providers have not clarified with respect to rating's basic ideas and approaches.

Topics to be discussed

- ⇒ **Could it be considered to include in the report that the role ESG rating and data providers have played thus far, including innovation in the investment chain, that they are expected to be further demonstrated in the future?**
- ⇒ **Is the statement made at the Technical Committee summarized as follows reasonable?; in ESG rating, it is important to clarify the rating philosophy such as the purpose, approach, and basic methodologies. As long as the rating is conducted in line with this philosophy, it is not necessarily a problem that the rating results of a company differ among different rating providers. Rather, it can be regarded as useful since it provides various perspectives on ESG.**
- ⇒ **While ESG data, which represents companies' objective efforts and facts, is in the direction of convergence through enhanced disclosure, ESG rating, which encompasses various concepts will continue to be diverse going forward?**

Comments made at the Technical Committee

- There are various types of external reviews for ESG bonds, such as second party opinion, verification, certification, and ratings, but expectations may be diverse; for example, with respect to second party opinion, people may have views and expectations that go beyond pure opinions.
- It would be of great significance for the Technical Committee to sort out the definition of such terms.

Topics to be discussed

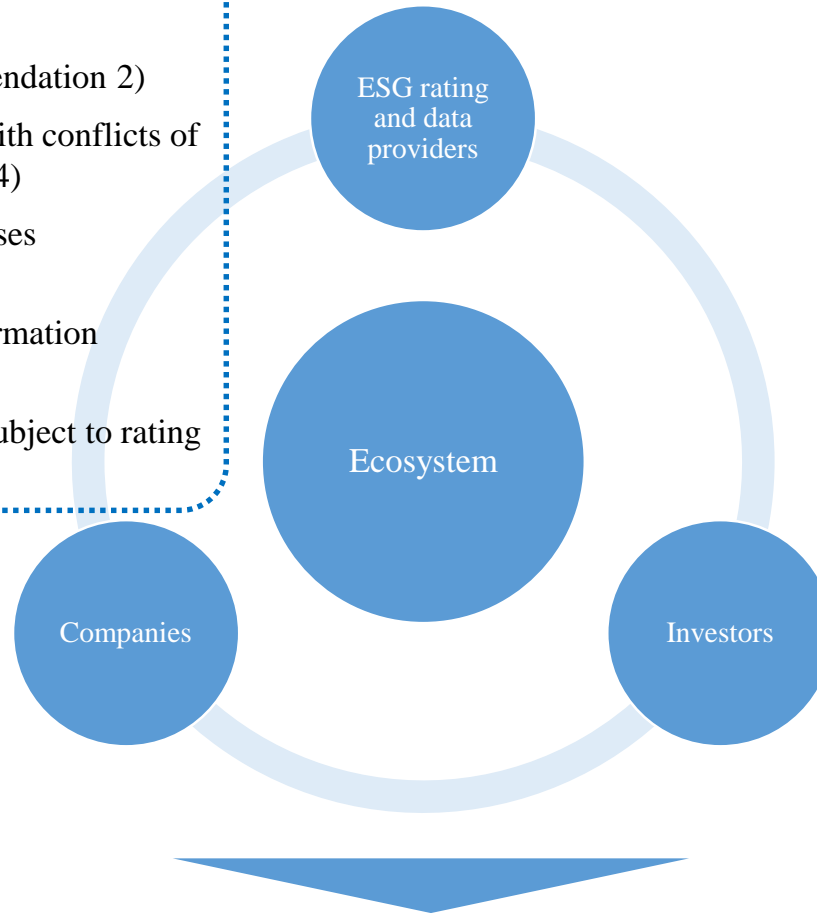
- ⇒ **With regard to the types of external reviews for ESG bonds, is it possible to sort out terms based on those described for external reviews by International Capital Market Association (ICMA)?**
- ⇒ **Based on the IOSCO report, there appear to be many contents that encompass various types of rating. Are there any special contents that should not be covered or should be added in the case of any rating?**
- ⇒ **Should it be reconfirmed that the Code of Conduct could be applied to regardless of types of assessment?**

(Reference) Overview of the Report and the Code of Conduct

From the perspective of building an ecosystem in which ESG rating and data are used in a reliable manner throughout the entire investment chain, the report could include the Code of Conduct for ESG rating and data providers, as well as matters expected to companies to be rated and investors who use rating and data.

Expectations for ESG rating and data providers

- Quality control (IOSCO Recommendation 2)
- Ensuring independence, dealing with conflicts of interest (Recommendations 3 and 4)
- Disclosure on methods and processes (Recommendation 5)
- Confidentiality of non-public information (Recommendation 6)
- Communication with companies subject to rating (Recommendations 8 and 9)



Expectations for Companies

- Expected roles of companies (Recommendation 10)

Expectations for Market Participants

- Expected roles of investors (Recommendation 7)

Ecosystem-wide initiatives

Improving the ecosystem as a whole and mutual encouragement

Comments made at the Technical Committee

Overall quality control

- In order to prevent inappropriate variations among ESG rating and data providers, appropriate guidelines for rating standards, methods, essentials, etc. should be established and disseminated within a provider's organization. In addition, there should be a system in which cross-sectional examinations are conducted by expert or senior committees to ensure that these guidelines are consistently applied.
- It may be important for rating and data providers to establish a PDCA cycle to improve the quality of rating, such as by periodically checking rating criteria, through reviewing and accumulating knowledge gained through a series of rating processes, namely collecting information, evaluating information, publicizing rating results, and receiving feedback from companies and investors.

Human resources development and promotion

- Rating and data providers need expertise in both ESG, such as environmental and social issues, and finance, such as bonds and stocks. It is necessary to secure analysts with expertise and build capacity by utilizing internal and external resources.
- While ESG initiatives are rapidly expanding, the development of human resources capable of conducting ESG rating has not been kept in pace. Across financial markets, it is also important for rating and data providers to cooperate with external organizations as necessary.
- From the perspective of developing human resources, it is important that personnel evaluations are conducted in a manner that promotes fairness and professionalism.

Comments made at the Technical Committee

Data quality

- There are two types of data used by providers : raw data disclosed by companies and estimated data prepared by data providers. Both are important as the basis for rating, and accuracy is essential.
- In particular, it should be noted that even though forecast data is not prepared by a company itself, if there are errors in the forecast and use process, it may cause noise in price formation to the company through investment activities.
- At present, for example, in terms of greenhouse gas emissions, while the data for Scope 1 and 2 may vary depending on the data provider, that for Scope 3 particularly varies among providers.

Topics to be discussed

- ⇒ **Evaluation quality control (establishment of PDCA), securing human resources, and ensuring data quality are essential elements for providing high-quality and reliable ESG rating and data. Can they be considered to be incorporated into the report and the Code of Conduct, taking into account the descriptions in the IOSCO report below?**
- ⇒ **The IOSCO report includes the following as an example. Are there any particular points to note?**

- Development of written policies and procedures concerning quality control (2-1)
- Ensuring the transparency of rigorous, systematic and continuously applied methods (2-2)
- Periodic publication of review of methodology (2-3)
- Adequate communication on periodic review of the methodology (2-4)
- Ensuring transparency regarding data compensation when actual data cannot be obtained (2-5)
- Ongoing management and regular updating of ESG ratings and data products (2-6)
- Maintenance of supporting internal records (2-7)
- Securing sufficient resources (including human resources) to conduct high-quality ESG-related assessments (2-8)
- Ensuring the expertise and integrity of human resources (2-9)

Comments made at the Technical Committee

Independence as a provider and as an analyst

- Regarding independence, it is necessary to pay attention to both the independence of providers and the independence of analysts.
- It should be stated in the Code of Conduct that rating can be conducted independently and professionally without undue influence from third parties, customers, and other parties involved.

Differences in conflicts of interest due to business models

- In general, the Subscriber Pay model and the Issuer Pay model are very different in their business nature, so it is necessary to discuss them separately.
- Are there any major differences between the Subscriber Pay and Issuer Pay models in terms of potential conflicts of interest? For example, there may be no particular difference between the two models in terms of conflicts of interest in providing paid advice to companies be assessed.
- The Subscriber Pay model generally conducts a rating that is not based on a request from a company. However, when trying to understand details of the rating, it is sometimes difficult to do so without applying for paid services. This may be problematic from the perspective of conflicts of interest.
- It may be difficult to understand questions without using consulting services when the purpose of the questionnaires is not clear, such as when the questionnaires are quite complex.

Topics to be discussed

- ⇒ **Can it be considered appropriate to include ensuring independence from a wide range of parties in the report and the Code of Conduct, based on the IOSCO report?**
- ⇒ **What are the possible specific differences regarding types of conflicts of interest and measures of preventing between two business models? As stated in the IOSCO report, at least would it be important for ESG rating and data providers to identify, manage, and mitigate potential conflicts of interest with respect to the services they provide?**
- ⇒ **Should questionnaires and the details of rating criteria need to be easy to use and understand for companies?**

Comments made at the Technical Committee

Specific approaches to conflicts of interest management

- Regardless of business models, it is important to identify and indicate what conflicts of interest may exist.
- If an ESG rating and data provider gives consulting services to improve rating results, it seems to be clear that a potential conflicts of interest exists, and it may be necessary to disclose the basis of the rating
- There would be a difference in a manner conflicts of interest may exist between a rating providing a judgment as to whether a company complies with objective and quantitative standards without arbitrariness, and a rating compiled as an opinion with qualitative judgment in mind.
- Conflicts of interest should be discussed in conjunction with transparency. The greater the realm for discretion, the more likely conflicts of interest are to occur.

Topics to be discussed

- ⇒ **It has been pointed out that the ideal way of management of conflicts of interest may vary depending on the ways of rating. Should it be included in the Code of Conduct that expected ways of management of conflicts of interest would differ between cases where rating method is objective, simple, easy to understand, or highly transparent, and cases where rating is subjective, wide-ranging, complex, or not-transparent? If include, are there any particular points to keep in mind?**

Comments made at the Technical Committee

Items for which transparency should be ensured

- The fact that rating results may differ from one organization to another does not seem odd, rather it may have the advantage of conveying diverse values. However, it is necessary to provide a specific explanation on "why does an assessment result in this particular way" in light of the purpose and method of the rating.
- In terms of transparency, not only details of methodologies, but also objectives, ideas, values, and what to assess in rating are also essential. For example, there will be a difference in approach between when assessing ESG-related risks and when assessing future corporate value creation based on ESG.
- It is also necessary to disclose basis of the rating and the data source. In particular, if estimated data is used, it is important to clarify what kind of estimated data they are and when those data are compiled.
- When the rating criteria changes, it may be necessary to clarify this.
- It is important to increase transparency, but if it goes into too much detail, there is a risk that the diversity and independence of rating cannot be ensured.

Topics to be discussed

- ⇒ **Based on the above points and the IOSCO report, could the following points be considered as items that are to be included in the report and the Code of Conduct regarding transparency.**
- **Basic philosophy, objectives, and policies of rating (related to IOSCO 2-2 and 5-5)**
 - **Specific details of rating methods (important details that would lead differences in rating results, etc.) (related to IOSCO 2-2 and 5-5)**
 - **Rating process (steps of rating, general procedures, checks and monitoring, etc.) (related to IOSCO2-2 and 5-5)**
 - **Contact point where rating results can be explained in detail in light of objectives and methods (related to IOSCO8 and 9-3)**
 - **Data sources for rating and usage of estimated data (related to IOSCO2-5 and 5-5)**
 - **In cases where rating methods are updated, the contents of the updates (related to IOSCO2-4 and 2-5)**

Comments made at the Technical Committee

Transparency to companies subject to rating

- Companies subject to rating may be in a position to be able to learn more about the results and methods of rating, compared to general investors. In this case, the companies may need to provide more in-depth information and explanations.
- As for some rating providers, questionnaires to companies may vary from year to year. Since questions are not only items to be assessed, but also serve as a starting point for companies to understand ESG perspectives of society and make improvements through PDCA cycle. Therefore, if a part of questionnaires suddenly disappears, there would be a problem from the viewpoint of continuous improvement.
- In case of the Subscriber Pay model, a company would try to find the basis of its own rating result from questionnaire, rating method, analysis results, but there are so many assessment items that it is difficult to understand them totally.

Topics to be discussed

- ⇒ **Based on the above, would it be appropriate to include in the report and the Code of Conduct that, in addition to general information disclosure, more detailed explanations would be required upon request from individual companies subject to rating? What points should be kept in mind when including them?**
- ⇒ **Should questionnaire, rating method, criteria, and other details be easy for companies to use and understand?**

Comments made at the Technical Committee

Confidentiality

- As data would become standardized, added value by the use of non-public information, and confidentiality regarding the information, would also be increasingly important.
- Asset managers and asset owners occasionally request rating and data providers to share non-public information. This also needs to be considered.
- For listed companies, consideration should be given to fair disclosure rules.

Topics to be discussed

⇒ **Would it be appropriate to include in the report the matters regarding confidentiality, taking into account the following statements in the IOSCO report?**

- Review of policies, procedures and mechanisms to address and protect the non-disclosure of corporate information (6-1)
- Examination of policies, procedures and mechanisms for the use of non-public information (6-2)
- Within the terms and conditions, consideration of providing information on data confidentiality and protection of non-public information (6-3)

Comments made at the Technical Committee

Explanation in advance

- In advance of ESG rating, it is necessary to clarify the overall rating process, including the timing of questionnaire, the main content and time required, and the rating method, to the companies subject to rating.

The benefits of responding to rating and sense of conviction

- It is important for companies to easily understand the benefits of responding to requests from rating and data providers. From this perspective, it would be important for investors to clarify how they are using rating results and data.
- ESG rating covers a wide range of purposes and methods. It is important for companies to be able to deepen their understanding of the approach and policy of rating. Even if the rating results are not necessarily good, if the purpose, approach, and values of the rating are clarified, the understanding of the company subject to rating will increase.
- If the rating criteria are not clear, or if the details of the rating cannot be provided even when an inquiry about them is made, companies cannot, for example, communicate the importance and necessity of the items to internal stakeholders that are moving forward with the initiative, and it is difficult to identify challenges and improve them. Communication leading to behavioral change is important.

Topics to be discussed

- ⇒ **Can it be appropriate to include prior explanation in the Code of Conduct, taking into account the IOSCO report (8•9-2, 6)?**
- ⇒ **From the perspective of promoting sustainability in the market as a whole, rating providers are expected to be engaged in constructive dialogue that would lead to changes in companies' behavior.**
- ⇒ **Would it be important for rating providers to clarify their policies in terms of how to respond to specific inquiries concerning rating methods, what kind of cases are difficult to answer, and whether companies can confirm input data?**
- ⇒ **It has been pointed out that it is important for investors to clarify how they use ESG rating and data, as well as their approach if they conduct their own ESG rating, so that companies can specifically understand what impact ESG rating and data can actually have. As described on page 18, is it possible to include this point in the report?**

Comments made at the Technical Committee

Correlation between communication and rating

- There are views, from the perspective of independence and fairness, that it is not fair if the amount of communication affects the rating. On the other hand, close communication with companies would be important from the perspective of conducting proper rating. How can these two aspects be reconciled?
- Even when rating is conducted using only public information, if the judgment of analysts or other persons is involved in the rating process, it may be necessary to have a dialogue between the rating providers and companies subject to rating.

Topics to be discussed

- ⇒ **Close communication between rating providers and companies during and after the rating would be important to ensure quality of the rating, as well as encourage improvements at the company. For this reason, should communication be encouraged rather than limited?**
- ⇒ **With regard to ensuring neutrality, could it be possible, for example, to separate personnel in charge of rating from personnel in charge of communication, and with regard to cases there are a large number of companies to be rated, could it be possible to clarify in advance the basic policy for communication? What other measures and ideas can be considered?**

- Communicating in advance when requesting information on ESG ratings or data products (8 / 9-1)
- Providing a clear and unified contact point for all inquiries from companies (8 / 9-3)
- Communicating supporting information to assessed companies before publishing ESG ratings and data products (8 / 9-4).
- Giving the firm time to identify product misconceptions, including underlying data and information (8 / 9-5)
- Publishing conditions for dialogue that describe how and when ESG ratings and data providers typically engage with the firm (8 / 9-6).

Comments made at the Technical Committee

Dialogue with rating providers and companies

- In the dialogue between investors and companies, checking all rating items using a mechanical check box tends to lead to the one-sided identification of issues. We should aim at a mutually beneficial way of engagement, in constructive dialogue on business approaches based on individual companies' strategies, policies, and environment.
- In the case of Subscriber Pay model, since there are many companies to be assessed, feedbacks from investors who repeatedly interact with many companies may be particularly important.

Understanding of rating characteristics

- It is also important for investors to understand the characteristics and differences in ratings among providers. In particular, with regard to the Subscriber Pay model, it is not necessarily easy to fully understand the rating results from the disclosed rating methods, as there are many companies subject to the rating and the sources of information are diverse.

Disclosure of methods in utilize ratings, etc.

- How investors use ratings is important for companies to understand how improvements in rating results can bring about business benefits. It is also important for rating providers to promote constructive dialogue with companies.

ESG ratings by investors

- An increasing number of investors uses multiple rating providers to compare the rating results of each provider, while taking into account investors' own perspectives in investment management. In some cases, investors may set their own sector-specific KPIs or conduct rating. What should we think of investors' in-house ratings?

Topics to be discussed

- ⇒ **It has been pointed out that it is important for investors clarify their approach for the use of ESG rating and data. As shown on page 16, is it possible to include this purpose in the report?**
- ⇒ **Would it be important for the Technical Committee to clarify the way in-house rating should be, as part of the investors' wider use of ESG rating and data?**
- ⇒ **Should it be included the above arguments in “dialogue with rating providers,” and “understanding of rating characteristics” points in the report?**

Comments made at the Technical Committee

Corporate disclosure

- Consistent, comparable, reliable and sustainable disclosure is important for both rating providers and data providers. In particular, since most ESG information is unstructured data, which requires considerable effort to scrutinize, improving the quality of data will greatly improve the quality of ESG rating.
- There is an expression "what gets measured gets managed." Since there is a global trend that important initiatives should be disclosed, it is important to understand these points.
- ESG data have two aspects. One is a businesses aspect in which data quality should be provided via transparency of data providers. The other is a social infrastructure aspect where institutional arrangements should be developed. The latter is particularly important for data on climate change.

Burden on companies

- It is not desirable that disclosures are not evaluated because they are difficult to compare. It is necessary to ensure transparency of what kind of information is used in rating and how they are used.
- In many cases, companies provide information to rating providers free of charge, and providers compile the rating based on this information. In order to provide ESG rating in a sustainable manner going forward, it may be necessary to create a mechanism that benefits companies as well.

Topics to be discussed

- ⇒ **In addition to international discussions in ISSB, the FSA is currently discussing corporate disclosure in its Working Group on Corporate Disclosure. Would progress in such discussions be important from the perspective of ensuring the quality of ESG rating and data?**
- ⇒ **Would it be appropriate to include in the Code of Conduct what kind of information is used in rating, as described on page 13?**
- ⇒ **Would it become easier for companies to understand the benefits to companies if investors clarify how ratings and data are used? Also, is it possible for rating providers to provide feedback to companies on issues in its efforts or provide comparisons with other companies. What else is possible?**
- ⇒ **It is also important to have a wide range of stakeholders, including companies, understand that ESG rating is diverse and the ways in which it is used by investors are diverse. From this perspective, is it important to promote dialogue among relevant parties?**

Comments made at the Technical Committee

Burden and resources of rating providers

- As ESG rating and investment rapidly expand, there is a demand for rating providers to quickly provide a large number of ratings at low prices. On the other hand, they are also required to secure quality, such as via securing human resources and deepening knowledge in individual fields, and face a heavy burden.
- When seeking to enhance dialogue with companies, the Subscribe Pay model has a large number of companies subject to assessment and a balance of resources needs to be considered.
- It is necessary for rating providers to not only conduct human resource development and in-house education by itself, but also to cooperate with external companies, investors, and other stakeholders. From this perspective, it is important to have a framework that benefits both companies and the rating providers.

Improving the literacy and mutual understanding of market participants

- There is considerable diversity in ESG rating in terms of the purpose, such as whether risk or impact is assessed, as well as the rating methods according to this purpose. In this regard, it is important to devise measures to increase the understanding (literacy) of the rating users, the companies to be evaluated, and the final investors (beneficiaries).
- It would be meaningful to deepen mutual understanding of the rating methods of rating providers through workshops that investors, companies, and rating and data providers gather. By sharing the reasons, points, and trends in ratings of international ESG activities, as well as the limitations of ratings and data, could it lead to constructive dialogue in the market as a whole, share good examples, and align viewpoints?

Mutual improvement in the ecosystem

- For example, there may be a way for the entire investment chain to improve quality, such as a system in which investors and companies can return or correct errors in the data of ESG rating and data providers when they notice them.

Topics to be discussed

- ⇒ **Would these points be appropriate to include them in the report?**
- ⇒ **What specifically can be considered as a place to improve mutual understanding?**