

September 6, 2021

International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid
Spain



Japanese Bankers Association

JBA comments on the IOSCO Consultation Report: “Environmental, Social and Governance (ESG) Ratings and Data Products Providers”

Dear Sirs/Madams:

The Japanese Bankers Association¹ (JBA) appreciates the opportunity to provide comments on the International Organization of Securities Commissions’ (IOSCO) Consultation Report: “*Environmental, Social and Governance (ESG) Ratings and Data Products Providers*”² on July 26, 2021. We hope that our comments will contribute to further discussions at the IOSCO.

We welcome this report, which aims to mitigate risks associated with ESG ratings and data products. We understand that ESG ratings and data products have played an increasingly important role in financial markets, given the growing interest in sustainability among investors and society. This report provides a series of recommendations on ESG ratings and data products providers, and we would like the IOSCO to consider the following comments to further ensure the credibility of ESG ratings and data products.

Recommendation 2

It is requested for ESG ratings and data providers to enhance functions 1) to enable users to download dataset 2) to provide API service for linkage with user's existing systems 3) to have identification information such as Ticker, Bloomberg ID, Capital IQ ID, ISIN code etc.

Also, ESG rating providers should disclose their revised methodology after review. (e.g. ESG issues to focus on and their evaluation weights, sources of information used for evaluation)

Recommendation 3

ESG ratings and data providers are required to develop appropriate decision-making processes and organizational structures to prevent conflicts of interest with other services including consultation service, and to disclose their contents. It is also possible to establish an internal control system, such as an internal audit, and to require verification of their system by an independent organization.

Recommendation 5

As pointed out in this report, many ESG rating and data providers provide their own evaluation results and data, and there is no correlation between them, which is causing confusion among evaluated entities and data users. On the other hand, ESG data users also have various purposes of use and ESG issues that they emphasize. Therefore, ESG rating and data providers should disclose the following items so that data users can appropriately select ESG rating and data providers.

- ESG issues emphasized in the evaluation

¹ The Japanese Bankers Association is the leading trade association for banks, bank holding companies and bankers associations in Japan. As of September 6, 2021, JBA has 114 Full Members (banks), 3 Bank Holding Company Members (bank holding companies), 74 Associate Members (banks & bank holding companies), 58 Special Members (regionally-based bankers associations) and one Sub-Associate Member for a total of 250 members.

² <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD681.pdf>

- Minimum standards to be met by the entities for material ESG issues, and the level to be considered as best practice

In addition, to ensure transparency to the evaluators and service users, ESG ratings and data products providers could consider clarifying the intention of setting/changing evaluation items and evaluation criteria/methods.

Recommendation 7

Currently, it is difficult to compare and verify ESG evaluation organizations because their evaluation methods are unclear. If the disclosure of information on ESG rating providers is promoted by this recommendation, the use of our ESG rating and due diligence will be promoted, and we will take appropriate measures.

In order for financial market participants to conduct due diligence, there should be sufficient ESG information disclosed in a consistent manner. On this ground, establishment of standards on how listed companies should disclose ESG related information so that a consistent, single set of global norms can replace the current patchwork of public and private-sector approaches.

Recommendation 8, 9

Since the rating methodologies are not sufficiently understood, the evaluated entities cannot give an appropriate answer to the rating provider, which leads to a sense of distrust in the evaluation results. In order to improve the accuracy of the evaluation, the evaluation organization should fully explain the following items to the enterprises to be evaluated and strive to ensure the reliability of the evaluation results through dialogue.

- ESG issues emphasized in the evaluation
- Minimum standards to be met by the entities for material ESG issues, and the level to be considered as best practice

Also, in order to reduce the burden on companies to be evaluated, instead of asking companies to answer questions on a zero-based basis, it is requested that the content of the preliminary evaluation made by the evaluation organization based on published information be presented to companies together with detailed evaluation criteria, and that companies make comments as necessary.

In addition, as much as possible, it is requested that not only information on disclosure in English but also information on disclosure in the native language of the country to which the evaluated company belongs be included in the evaluation.

Other

A couple of vendors provide transition and physical risk scores and data products. They are different modules from ESG score and data module, but they seem to be a part of ESG solutions.

It is not clear how these scores link to ESG score and it is uncertain there're consistency between climate risk scores and ESG scores.

On top of that, these methodologies are vary across data products providers. And the definition of transition risk score is different across providers. One provider defines transition risk score as Energy Transition Score, while another defines it as Carbon Footprint Score.

We request to add climate change risk related scores and data service guidelines as a subset of ESG ratings and data products in the future.

(End)