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ESG INSIGHT

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INDOS is proud to provide a range of services for clients who incorporate environmental, social and governance (ESG) considerations into their investment businesses. Our monthly newsletter 'ESG Insight' will provide you with the latest news and views on ESG, helping you to stay on top of developments in this increasing area of focus.

European Regulation

On European regulation news, the French Regulator, the AMF has proposed rules on "minimum standards applicable to ESG-denominated investment funds" (see link for details). In the document, the AMF outline 6 proposals they want the EU to follow in order to counter greenwashing in financial markets.

These include revising the Non-Financial Reporting Directive to standardise ESG data, creating free access to the database and creating a European label to cover ESG funds.

In more EU regulation news, a consultation on the amendments to integrate sustainability risks into UCITS, AIFMD and MiFID closed in August. Statements have been released by The Investment Association (IA), Aviva and 2Degrees all voiced their concerns. The statements highlighted the lack of clarity between sustainability risks and fiduciary duty as well as the little definition of what investors "sustainability preferences" are. This could lead to products such as impact and stewardship related funds not being marketed to investors because of the narrow definition of 'sustainability'.

ESG data faces major growth yet major hurdles

Vigeo Eiris will make all of their ESG ratings publicly accessible. A spokesperson for Vigeo Eiris, which Moody's acquired last year, stated "The public disclosure of this data is helping to construct an environment where pressure to demonstrate and improve ESG performance is both top down, from investors, and bottom up, from civil society. We will be making our full universe of corporate ESG scores and select ESG metrics public in due course."

The confirmation comes after ESG data giants Sustainalytics (1) a subsidiary of firm Morningstar – and MSCI (2) announced similar moves, with both companies freeing up the ratings. The other large data houses, ISS, FTSE Russell and S&P have all already released their top-level scores for investors to view whereas Bloomberg ESG, Refinitiv and French firms Novethic and EcoVadis have not.

Electric cars have also been a battleground of ESG data with the providers failing to agree on how environmentally friendly they are. This leads to huge differences in the headline scores given to companies such as Tesla. (3)

These moves come after the ESG data field received more criticism than normal recently over the long persistent problem of inconsistent ratings between the data houses and as large asset managers place ESG centrally to their investment process investors and managers are pushing hard for a solution for what they see as "defective" ESG data.

The problem being, for markets to operate efficiently there needs to be transparent and consistent information, rather than the black box methodology approach taken by some data houses. While this is irritating for ESG funds it can have more drastic consequences for firms facing mandatory climate risk reporting, as the BOE plans to for the insurance industry.

The quiet scramble for correct and investment quality climate risk data is going on with visible signs being the M&A activity within the boutique data firms. Companies such as 427, Carbon Delta and MJ Bradley & Associates have all been purchased by big ESG players at undisclosed amounts in the last 12 months.

In recent weeks, the European Central Bank joined trade groups in lobbying EU regulators for a "single access point" for both corporate financial and sustainability-related data after noting that diverging ESG research was due to "the unavailability of granular information at the corporate level" (4). At the same time, several market-led initiatives to further standardise and make accessible sustainability data have recently launched, including the climate-focused OS-Climate open source (5).

These types of single access points and more public oversight of the way the ESG data is derived may be the best way to solve the current data deficiencies.

1 (https://www.sustainalytics.com/esg-ratings/)
2 (https://www.msci.com/esg-ratings/issuer/)
3 (https://go.axioma.com/rs/240-ASI-005/images/Webinar_Slides_ESG_VendorDataSurvey_2019.pdf)
4 (https://www.ecb.europa.eu/pub/pdf/other/ecb.eurosystemreplyeuropeancommissionpublicconsultations_20200608~cf01a984aa.en.pdf?3322f3554eb4a598f62d9737db8a61ae)
5 (https://www.os-climate.org)

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