

**Institutional Shareholder Services (ISS)** welcomes the opportunity to provide a response to the European Commission on its targeted consultation on the functioning of the ESG ratings market in the European Union. We appreciate your continuing dialogue with the ESG research provider industry and welcome a continued discussion on this matter.

Founded in 1985, ISS is a leading provider of corporate governance and sustainable investing solutions, market intelligence and fund services, and events and editorial content for institutional investors and corporations, globally. Our aim is to empower investors and public companies to build for long-term, sustainable growth.

**ISS ESG, the responsible investment arm of ISS**, provides institutional investors with comprehensive data, analytics and advisory services to help them understand, measure and manage ESG-related risks and opportunities to achieve their investment objectives. We support investors in implementing their diverse and evolving investment approaches and are particularly well-positioned to serve their needs with respect to the EU sustainable finance agenda. ISS ESG data and ratings consider both impact- and risk-based factors and are systematically mapped to recognized disclosure standards, such as the current Non-Financial Reporting Directive (NFRD) and the upcoming Corporate Sustainability Reporting Directive (CSRD) and EFRAG's European Sustainability Reporting Standards.

ISS' response represents our views in our capacity as an ESG ratings and data provider and a key industry stakeholder in the areas of corporate governance and sustainable investment, and not necessarily those of our clients.

In addition to the submitted response, ISS would like to highlight the following key points:

- **Increasingly, ESG information is part and parcel of fundamental investment analysis, rather than supplemental to it.** This shift signals investors' maturing understanding of ESG factors and the increasing relevance of ESG data to investment decision-making. From a regulatory perspective, ESG research and its providers should therefore be treated on a level playing field relative to "traditional" financial research and its providers.
- **ISS supports the EC's objectives of clarity and transparency of ESG ratings.** We believe that global regulators' work to promote timely, decision-useful and reliable corporate sustainability reporting is critical to closing the gap between current corporate reporting, upon which providers rely in large part, and investor needs, which providers try to meet. More comprehensive and comparable corporate disclosure will enhance market confidence in ESG rating and data products. **Effective and timely corporate reporting sets the foundation for ESG ratings and data products.**
- **A regulatory approach that goes beyond principles risks precluding new market entrants and curtailing providers' ability to keep pace with ESG market developments and satisfy investors' needs.** ESG data and research providers such as ISS are partners to investors in their quest to understand the complex and changing universe of ESG risks. In this regard, we encourage regulators to be mindful of the potential impact of regulation on the ability of providers to meet investors' diverse and continually evolving needs. To the extent the Commission is considering

legislative or non-regulatory intervention, the approach should focus on process, not outcomes, prioritizing principles around good governance, transparency of methodology, conflicts of interest management, and the independence of ratings and ESG research generally. Any intervention, if deemed necessary in the first instance, should steer away from, and should not require, standardization of methodologies.

- **The variety of ESG ratings is a natural and positive feature of the market.** It is the result of investor demand for a multitude of analytical options to help them understand and manage investment risks and opportunities, as well as to implement their own, potentially varied investment thesis or help with their own regulatory reporting. Investors are not of a single mind with respect to ESG issues nor how they incorporate ESG ratings and data into their investment processes – this diverse ESG “lens” is an asset to financial analysis and capital markets. The lack of correlation between ESG ratings is therefore not inherently problematic. Policymakers should help to drive transparency, rather than consistency, of ratings.

Respectfully,



Karina Karakulova  
Director  
Regulatory Affairs and Public Policy  
[karina.karakulova@issgovernance.com](mailto:karina.karakulova@issgovernance.com)



Lydia Sandner  
Vice President  
Regulatory Affairs, Sustainable Finance  
[lydia.sandner@iss-esg.com](mailto:lydia.sandner@iss-esg.com)



Maximilian Horster  
Head  
ISS ESG  
[maximilian.horster@iss-esg.com](mailto:maximilian.horster@iss-esg.com)



Bonnie Saynay  
Global Head  
ESG Investor Research & Data Strategy  
[bonnie.saynay@iss-esg.com](mailto:bonnie.saynay@iss-esg.com)