TARGETED CONSULTATION ON THE FUNCTIONING OF THE ESG RATINGS MARKET IN THE EUROPEAN UNION AND ON THE CONSIDERATION OF ESG FACTORS IN CREDIT RATINGS

EXECUTIVE SUMMARY - LSEG RESPONSE TO THE EUROPEAN COMMISSION TARGETED SURVEY

June 2022

I. About LSEG

London Stock Exchange Group (LSEG) welcomes the opportunity to respond to the European Commission's (the 'Commission') targeted consultation on the functioning of the ESG ratings market in the European Union and on the consideration of ESG factors in credit ratings (the 'consultation').

LSEG is a global, open financial infrastructure provider that is committed to net zero, a founding member of the UN backed Principles for Responsible Investment and a member of the UN Climate Change Race to Zero.

LSEG is both a provider and user of ESG ratings and scores and as a listed company also aims to take a leading approach with its own reporting.

Through FTSE Russell and Refinitiv (both part of LSEG), LSEG has been a pioneer in providing ESG data, scores, indices and solutions to global investment professional for more than 20 years. We publish ESG scores for over 10,000 companies using transparent methodologies, which is informed only on publicly available data and is aligned with global ESG reporting standards, including TCFD and Global Reporting Initiative (GRI). In the area of ESG data, we support global initiatives aiming at improving their quality and reliability such as the open-source Transition Pathway Initiative. LSEG entities are also users of ESG scores. This is the case for FTSE Russell which uses ESG scores as an input to some sustainable investment (SI) index methodologies.

We are committed to our core role within the financial market ecosystem, bringing together investors, providers of finance and issuers to address sustainability challenges and facilitate the flow of sustainable data and capital.

Should you have any questions, queries or comments about the detail, our team would be pleased to discuss with you at your convenience.

II. LSEG Position

Preliminary note: The European Commission's targeted survey is addressed to (i) users of ESG ratings/scoring; (ii) companies subject to ESG ratings or scores and (iii) to providers of ESG ratings/scores. LSEG qualifies for each of those categories.

Although LSEG chose to position itself on this topic mainly as an ESG scores provider, we still provided some comments from the standpoint of our benchmark administration's business (FTSE Russell) which is a user of ESG scorings.

Position on European Commission's ESG ratings targeted survey: LSEG believes that globally available, comparable, and reliable company ESG data is essential to drive towards more reliable ESG ratings or scores in the marketplace. Without mandatory corporate disclosures and globally agreed reporting standards, the transition to an environmentally and socially sustainable economy will remain a major challenge.

There are several standards and we are optimistic about the efforts in the market aiming at convergence and standardization. It must be a top priority for regulators and other stakeholders to accelerate efforts towards improving ESG data quality, availability and comparability. We support global initiatives aiming at improving non-financial corporate disclosure and avoid fragmentation, including the IFRS Foundation proposal for a global sustainability standard, IOSCO disclosure workstream and UN Sustainable Stock Exchanges model guidance aligned with TCFD (chaired by LSEG). We would suggest non-financial reporting requirements (i) include transition plans and (ii) are aligned with TCFD as set out in LSEG's public policy paper mobilising-capital-for-a-sustainable-global-economy.pdf (lseg.com).

This commitment to global mandatory non-financial corporate disclosure underpins our general response to the Commission's consultation on ESG ratings.

When it comes to ESG ratings and scores, we are supportive of the IOSCO's principle-based framework focused on transparency and more specifically we advocate for:

1) transparency on what ratings or scores measure;
2) transparency on methodologies, approach to materiality and weights;
3) convergence of a base assessment but enough room for innovation and differentiation as in ESG there is no such thing as one size fit all; and
4) mandatory reporting by companies (as mentioned above).

In addition, our position is based on the following key principles:

- **Principle-based approach:** Any proposed guidance should remain principle-based to allow sufficient flexibility and encourage the necessary innovation around ESG ratings or scores. For instance, any future framework should strike the right balance between increased transparency on ESG ratings or scoring methodologies and an innovation-friendly environment.

- **Recognise the difference between ESG ratings and ESG scores:** In line with existing regulations, differences between ratings and scorings should be recognised by policymakers given the ESG's scores quantitative and rule-based features, and exclusive reliance on public data. Those specific features make scores less, if not at all, prone to potential conflicts of interests. Such distinction already exists in the EU Credit Rating Regulation (Art 3.1 (y)) which draws an important distinction between scores and ratings where scores are defined as a measure without subjective analyst input.

- **Avoid standardisation of methodologies:** No common definition exists of what a 'good ESG' assessment is and may vary depending on market participants' investment objectives. This is why, unlike the credit ratings space, any regulatory intervention should primarily focus on transparency rather than standardisation as users of ESG ratings or scores need to access a wide range of products and types of assessments (climate related, biodiversity, social, etc.).

- **Avoid duplicative frameworks:** Existing frameworks should be taken into account to avoid duplications e.g. in the area of ESG benchmarks already subject to EU supervision, to avoid dual regulation of the same activities

Our responses to the European Commission's targeted survey are underpinned by the above principles.