The Investor Relations Society
5th Floor, 30 Coleman Street
London, EC2R 5AL

ESG Data and Ratings Code of Conduct Working Group (DRWG)
By email: drwgsecretariat@icmagroup.org

5th October 2023

Dear Sirs,

# Re: Voluntary Code of Conduct for ESG data and ratings providers

## Introduction

Thank you for giving us the opportunity to comment on the Voluntary Code of Conduct for ESG data and ratings providers that you are developing. This response is made on behalf of the UK's Investor Relations Society ('the IR Society').

The IR Society represents Members working for publicly listed companies and investor relations focused service providers, to assist them in the development of effective two-way communication with the markets. It has approaching 800 Members, drawn mainly from the UK, including the majority of the UK FTSE 100 and many of the FTSE 250 constituents and some from companies listed overseas.

The IR Society's mission is to promote best practice in investor relations; to support the professional development of its Members; to represent their views to regulatory bodies, the investment community and Government; and to act as a forum for issuers and the investment community. As such, our response has been primarily constructed through the lens of an issuer.

We provide some general comments below, and then refer to some findings from our recent Member survey examining the experiences of Investor Relations Officers (IROs) with ESG data and ratings.

## General comments

Firstly, we are supportive of your proposed principles-based approach covering Governance, Systems and Controls, Management of Conflicts of Interest and Transparency. In our view, where ESG Ratings providers also provide consultancy services to investors and/or corporates, this creates a clear conflict of interest that needs to be dealt with under the regulatory framework. To address this issue, such conflicts should at least be disclosed, and there should be full transparency of services provided to investors/corporates. We are also aware of anecdotal evidence that some ratings agencies will not engage with corporates (e.g. to correct a rating) unless fees are paid, which both raises conflicts and warrants transparency to investors and other users.

We attach by way of background our response to HM Treasury's consultation on a Future regulatory regime for ESG Ratings providers, in which we recommended that:

- to minimise the risk of incompatible overlapping regulation across international jurisdictions, the UK (and overseas) regimes should be based on the recommendations from IOSCO (International Organisation of Securities Commissions), which focus on ensuring transparency in methodologies, rather than attempting to prescribe any particular ESG assessment methodologies, and

- there is consistency and harmonisation with overseas equivalent regimes (for example, the EU Proposal for regulating ESG ratings providers).

We are therefore supportive of:

- your proposed approach of basing the Code heavily on the IOSCO recommendations,
- your intension that the Code be internationally interoperable, and
- your hope that the Code can represent an important step towards a globally consistent regulatory framework.

## Society Member survey on ESG data and ratings providers

We attach the published findings from a survey that we carried out earlier this year among our IRO Members to better understand their experiences with ESG data and ratings providers, which underline the importance of ESG ratings to corporates and illustrate a level of dissatisfaction with the current quality of engagement between companies and ESG data and ratings agencies.

You will see that our research found that, whilst 85% of respondent IROs think a good ESG rating is important to their reputation, only 24% are satisfied with the analysis undertaken by ESG ratings agencies (of the remainder, 37% are dissatisfied and nearly 40% were neither satisfied nor dissatisfied). FTSE250 IROs appear least satisfied with ratings agencies, with 85% of FTSE 250 respondent IROs dissatisfied or very dissatisfied. Over 70% of respondent IROs find the annual updates to ESG ratings agencies' methodology make it difficult to do historical analysis and monitor progress.

Given the potential relevance to the voluntary regime that you are developing, we also set out in the Appendix below some additional survey findings relating to IRO engagement with ESG ratings agencies and their impact/outcomes, together with all of the verbatim comments that were made in respect of ESG data/ratings providers (anonymised) to provide some examples/illustrations of the issues that IROs have experienced when dealing with ESG data and ratings agencies.

We hope you find these comments useful. Please do not hesitate to make contact if you have any questions.

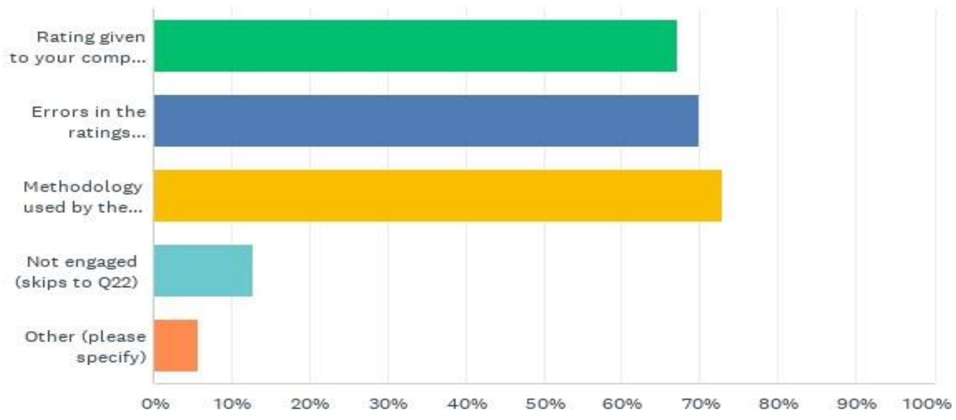
Yours faithfully,

Liz Cole
Head of Policy and Communications
Investor Relations Society
(Email: enquires@irsociety.org.uk, Tel: + 44 (0) 20 7379 1763)

## Appendix
## ESG DATA/RATINGS SURVEY
## Additional findings and verbatim comments

### Q20: Have you engaged with ESG ratings agencies on any of the following? (please select all that apply):

Answered: 70 Skipped: 18

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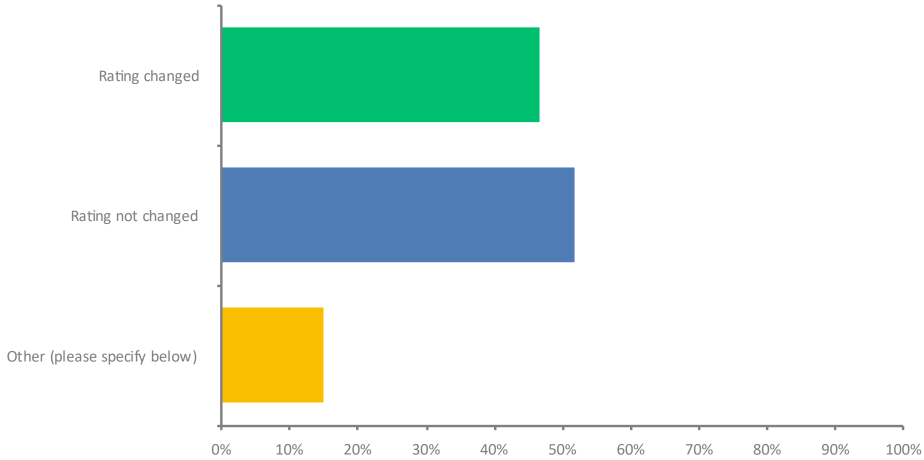
| ANSWER CHOICES | RESPONSES | |
|---|---|---|
| Rating given to your company | 67.14% | 47 |
| Errors in the ratings agency's data | 70.00% | 49 |
| Methodology used by the ratings agency | 72.86% | 51 |
| Not engaged (skips to Q22) | 12.86% | 9 |
| Other (please specify) | 5.71% | 4 |
| Total Respondents: 70 | | |

Other (please specify)/comments:

- *Timings of their assessment*
- *We do not have the resources to spend so much time on ESG ratings but this year we have decided we are going to challenge [a rating agency] on some of their black flags which may results in them changing the score given to us*
- *Engaged on why some raters score us differently depending on what sector they put us in*
- *Engaged on what disclosures needed to improve score*
- *have not published ESG report so yet to fully engage*

## Q21: What was the outcome/impact of the engagement? (Please select all that apply, and please also add any relevant examples/comments):

Answered: 60 Skipped: 28

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| ANSWER CHOICES | RESPONSES | |
|---|---|---|
| Rating changed | 46.67% | 28 |
| Rating not changed | 51.67% | 31 |
| Other (please specify below) | 15.00% | 9 |
| TOTAL | | 68 |

Other (please specify)/comments:

- *Depends on the rating but generally we manage to find ways to have a more complete disclosure (and therefore some improvements on our rating) after engaging with ESG raters.*
- *Not enough explicit public information available from their standpoints, which then leads back to compliance teams*
- *never know if they change your rating or not related with a particular interactions*
- *varies*
- *Frustrating lack of willingness to engage*
- *Very difficult to engage with most providers, methodology is notoriously opaque*
- *Some ratings improved, some classifications not amended.*
- *Changed the way we do internal analysis*
- *Respond differently*
- *Stopped the ESG rating process until a) we had our story internally more mature and b) until [ratings agencies] merger completed (to avoid change of methodology or personnel)*
- *Improved understanding of methodology*
- *Rating only improved ever so slightly.*
- *Unclear if the engagement made a difference*
- *Scores are often relative - so if peers start disclosing more or start improving faster, your score can go down even if you have maintain your performance at the same level*

- *Rating agencies sometimes take a absolute approach to ESG. Sometimes this is difficult to navigate, especially when not all issues are material to our business.*
- *The data capture and accuracy of the data was poor from a number of agencies. Engaging with them (as well as improving our practices) resulted in a significant improvement.*
- *yet to engage*
- *we have improved our ratings over the past 3 -4 years*
- *"[a rating agency's] sector categories are so broad that we were being captured alongside very different businesses (e.g. large international asset managers and global banks) where the ESG risks and opportunities are completely different. Following engagement, our sector categorization was changed to something slightly more appropriate, but it is still a very broad category which we do not believe is appropriate in some areas.*
- *Usually we can review the information they have before it goes public. Sometimes they publish something we disagree with and if it's fact-based and material we will engage with them*
- *We've worked very hard on a couple of engagements and been successful in getting some moderate change. On a couple of important ones though the ratings agency was clearly never going to change their view, which we thought was wrong, on the basis of "methodology and senior level review".*

When asked ***'Has your company incorporated investor views in an ESG materiality assessment process?'***, one respondent commented that:

- *We ask for investor feedback on what they think the biggest ESG risks and opportunities are for the company, which feeds into our own assessments (generally investor views are aligned with our own). Our experience is that investors have gradually realised that there are huge inconsistencies in ESG analysis between different ratings agencies, and many have therefore developed their own methodologies rather than relying on external ratings. From a company perspective, we see a huge range of different approaches which makes it very difficult to understand the expectations, methodologies, and ultimately the ratings, across different ESG ratings providers.*