Norges Bank Investment Management

Monetary Authority of Singapore
10 Shenton Way, MAS Building
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Date: 21 August 2023

Code of Conduct for Providers of ESG Ratings and ESG Data Products

We refer to the Monetary Authority of Singapore's consultation paper on the proposed code of conduct for environmental, social and governance ("ESG") Rating and Data product providers. We appreciate the opportunity to provide our perspective on the draft code of conduct.

Norges Bank Investment Management is the investment management division of the Norwegian Central Bank (Norges Bank) and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with 12,429 billion Norwegian kroner at year end 2022. Of these, about 5,76 billion SGD was invested in the shares of 87 Singaporean companies at year end.

As a long-term and global investor, we consider our return to be dependent on sustainable development in economic, environmental and social terms. We therefore need information on companies' exposure to sustainability risks and opportunities, how these are managed, and relevant performance metrics. Our internal analysis of portfolio ESG risk draws on the metrics and indicators underlying ESG ratings, rather than the ratings themselves. However, although we do not use individual ESG ratings directly to make investment decisions, we do consider them a useful complimentary source of information for our risk management and stewardship activities.

We welcome MAS' proposal to elevate standards and disclosures of ESG ratings and data products via an industry code of conduct for providers, which will cover best practices on governance, management of conflict of interest, and transparency of methodologies and data sources. Increased transparency on ESG ratings can enhance pricing efficiency and the well-functioning of markets. This can contribute to a higher degree of confidence in the use of these products within financial markets, benefiting investors while also enhancing market integrity, risk pricing, and capital allocation.

The diversity in the assumptions, objectives and methodological approaches used by rating providers, while positive if well understood, might not always be apparent to stakeholders, which can cause ESG ratings to be misinterpreted. We welcome Principle 4 on transparency, which is essential to enable users of ratings and data products to use them with confidence.

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We believe that rating providers should publicly disclose their methodologies, data sources, and the weights used to generate overall ESG ratings. We therefore welcome the call for transparency on methodologies as well as the suggested best practices on labelling of the rating, sources of data, measurement objectives of the ESG rating or data product, criteria used to assess the covered entity, the KPIs used to assess the covered entity against each criterion, and their relative weighting. Providers should also be transparent on substantive changes they make to their methodology, and explain the impact these have on the quality, coverage, and distribution of ESG ratings; we therefore suggest that a requirement is added to enable disclosures of methodology change impacts. We suggest a reference is also added to disclosure of whether the ESG rating is a relative assessment of an entity compared to its peers or an absolute score, together with disclosure of what constitutes a peer group if the rating is expressed in relative terms. The requirement on disclosure of the measurement objective of the rating or data product could also be edited to include an explicit reference to the chosen approach to materiality, which could help users better understand what a rating seeks to achieve.

We believe that ESG rating providers should have policies and procedures in place to manage conflicts of interest, including functional separation of business units assigning ESG ratings and providing advisory services to rated entities. We therefore support Principles 2 and 3 and the importance of identifying, managing and disclosing conflicts of interests that may compromise the independence and objective of entities' operations. Best practice under these principles could also include transparency on providers' governance and resources, including funding models and fee structures. We believe that ESG rating providers should have appropriate systems and controls in place to detect and correct efforts, and adequate resources to ensure ratings quality. We therefore support the reference to adequate resources in the best practices under Principle 1. Finally, although engagement with rating providers can be resource-intensive from an issuer's perspective, we believe that ESG rating providers should provide rated entities with an opportunity to correct any factual mistake, a so-called "right to reply". We therefore support proposed Principle 7.

We thank you for considering our perspective and remain at your disposal should you wish to discuss these matters further.

Yours sincerely

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Question 1. MAS seeks views on the proposed definition of “ESG rating” and “ESG data product”, as well as the list of excluded products.

We welcome the decision by MAS to base its definitions of ESG rating and ESG data products with the ones provided by IOSCO in its November 2021 report. We encourage MAS to further align the wording of these definitions with the IOSCO ones. For example, MAS could remove the reference to data “to which estimations, calculations or analysis has been added” in the definition of ESG data products. We note that this reference might otherwise exclude from the scope of the proposed code of conduct any ESG data product which has been subject to collection and aggregation, but not added analysis.

Question 2. MAS seeks views on whether external reviews such as Second Party Opinions should be scoped in the ESG data products under the CoC.

We support MAS’ intention to align the scope of the Code of Conduct with the IOSCO report, and therefore exclude external reviews such as Second Party Opinions which have been classified by IOSCO as “other ESG services”.

Question 3. MAS seeks views on the proposed definitions of “ESG Rating Provider”, and “ESG Data Product Provider”.

We suggest the two definitions are better aligned in regard to the scope captured. Currently, the suggested definition of “ESG Rating Provider” covers entities offering or providing ESG ratings “in Singapore” or “out of Singapore”, while the suggested definition of “ESG Data Product Provider” refers to the provision of such products “to participants in the financial market in Singapore”. The latter definition therefore seems to be based on a user location approach, while the former could leave room for interpretation on whether it refers to the location of the providing entity or the client.

Question 4. MAS seeks views on the proposed best practices on ESG rating and data product providers’ disclosure of how transition risks and opportunities are factored into ESG ratings and data products.

While information on a company’s forward-looking strategic plans, including transition plans, is very useful and increasingly expected from investors, we caution against embedding an expectation in the Code that all ESG ratings and data providers should include transition risks and opportunities in their assessment. While we understand that this would be a disclosure requirement as opposed to a substantial requirement for all providers, we believe that an assessment of transition plans is not necessarily suited for inclusion in a composite ESG score. Transition plans are indeed relevant to a company’s exposure and management of climate-related risks, and might therefore be taken into account by rating providers as they assess the entity’s management of such risk, but might be less relevant for other E, S and G factors such as human rights or human capital management issues. However, we do acknowledge that the market offers ESG data products such as transition risk scores, where an assessment of such forward-looking plans is key to the provider’s methodology.

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Question 5. MAS seeks views on the principles and best practices set out in the draft CoC in Annex 1.

We welcome the reference in Principle 1 to transparent and defined methodologies, as well as the related best practices calling for disclosures of information regarding changes made to the methodologies and the potential impact of these changes. Similarly, we welcome the call for transparency on the data sources used, including the use of industry averages, estimates or other methodologies. Specific methodologies used by ESG rating providers differ considerably in the scope of the issues assessed, choice of data points, and weighting factors; transparency on all these is therefore essential to enable users to understand the objectives and limitations of the specific ESG rating. Regarding substantial methodology changes and related disclosure best practice, it would be helpful to receive information on the impact these have on the quality, coverage, and distribution of ESG ratings.

We support Principles 2 and 3 and the importance of identifying, managing and disclosing conflicts of interests that may compromise the independence and objective of entities' operations. Providers should have policies and procedures to manage conflicts of interest, and functional separation of business units providing advisory services to rated entities. Best practice under these principles could also include transparency on providers' governance and resources, including funding models and fee structures. We support the requirement for providers of issuer-paid ESG ratings not to accept any contingent fee arrangements, as this could impair the objectivity of the rating and represents a clear conflict of interest.

Principle 4 on transparency is essential to enable users of ratings and data products to use them in confidence. We strongly welcome the call for transparency on methodology, as well as the suggested best practices on labelling, sources of data, measurement objectives of the ESG rating/data product, criteria used to assess the covered entity, the KPIs used to assess the covered entity against each criterion, and their relative weighting. We suggest a reference is also added to disclosure of whether the ESG rating is a relative assessment of an entity compared to its peers or an absolute score, together with disclosure of what constitutes a peer group if the former. The requirement on disclosure of the measurement objective of the rating/data product could also be edited to include an explicit reference to the chosen approach to materiality, whose disclosure could help users better understand what a rating seeks to achieve. Finally, we note that some of the requirements and best practices under Principle 4 overlap with those listed under Principle 1 (notably disclosure on methodologies and sources of data) and call on MAS to streamline the text and eliminate such potential repetitions.

We also support Principle 6, which calls for an efficient information procurement process and recognises that information gathering can often be resource intensive for rated entities, and Principle 7, which supports a rated entity's "right to reply". We believe that ESG ratings and product provides should provide rated entities with an opportunity to correct any factual mistake, and that they should collect information from publicly disclosed reports rather than ad-hoc questionnaires whenever possible.

Question 6. MAS seeks views for the CoC to be adhered to on a "Comply or Explain" basis.

N/A

Question 7. MAS seeks views on the proposed Checklist (Annex 2), whether it would enable product users to easily identify compliant providers and facilitate interoperability for ESG rating and data product providers' global operations.

We believe that the proposed checklist could potentially be streamlined and require disclosure at the principle level rather than best practice level.

Question 8. MAS seeks views on third-party assurance or audit on ESG rating and data product providers' self-attestations to be adopted on a voluntary basis.

N/A

Question 9. MAS seeks views on any other suggestions to encourage ESG rating and data product providers' adoption of the CoC.

N/A

Question 10. MAS seeks views on the proposal to bring ESG rating providers into the CMS licensing regime under the SFA when a regulatory framework is develop.

N/A

Question 11. MAS seeks views on whether overseas based ESG rating providers who offer ESG ratings to users in Singapore should be subject to the proposed regulatory regime for ESG rating providers, and the scope of activities of such providers to be subject to regulatory requirements.

The market for ESG ratings and data products is global and many providers operate across borders, which is why we have welcomed the work undertaken by the International Organisation of Securities Commissions (IOSCO) and its recommendations issued in November 2021. We support the global harmonisation of regulatory regimes for ESG rating and product providers based on the IOSCO recommendations, and suggest any regime for non-Singapore providers be based on the IOSCO principles. A mechanism for recognition of third country regulatory regimes might also be beneficial and help avoid overlapping requirements, and this mechanism should ideally be based on the third country's compliance with the IOSCO recommendations.

Question 12. MAS seeks views on the appropriate monitoring period (in months) and observable market milestones before consulting on a more formalised regulatory regime for ESG rating providers.

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