

# GETTING TO KNOW ESG DATA

## 2022 REPORT

ESG Investing and by extension ESG Data are now US\$ Trillion and US\$ Billion business' respectively. Applying ESG principles to investment outcomes requires devoting significant research and resources to understanding the world of ESG Data.

In this report we make sense of the basics, after all according to the Chinese *'A Journey of a 1,000 miles starts with a single step'*.

IN THE YEAR 2100  
JUST NORTH OF THE ARCTIC CIRCLE...

"DADDY, WHY  
IS THIS  
PLACE CALLED  
ICELAND?"

Section	Title	Slides
1	ESG Clients: A Diverse Crowd	4
2	ESG Data Businesses: Lessons & Equilibriums	5
3	Investors Self Interest & The ESG Data World	6
4	<b>E</b> For Environmental Data Principles	7
5	<b>S</b> For Social Data Principles	8
6	<b>G</b> For Governance Data Principles	9
7	ESG Data & Standards	10
8	Where do ESG Data Providers Come From?	11
9	About Market Data Guru	12

Prepared by Keiren Harris  
[knharris@datacompliancellc.com](mailto:knharris@datacompliancellc.com)  
[www.marketdata.guru](http://www.marketdata.guru)

### ESG Data: Client Driven Experiences

2021 was definitely a breakout year for the MarketData Guru in the ESG data and consulting space, with the work as diverse as the topic, and varying degrees of challenges, fascinations, and eye-opening events. This work covered key areas across the ESG spectrum, including:

1. Advising a start-up Swiss ESG data provider on its business models and Intellectual Property Rights
2. Working with an index creator developing new benchmarks for commodities, energy, carbon ETFs, and Brazilian soybeans
3. Consulting with a broker to commercialise their data in suitable formats for traders investing within ESG parameters
4. Researching and analysing the market for ESG data and accessing data sources/suppliers for one of the world's largest media organisations
5. Building a listings database for [www.marketdata.guru](http://www.marketdata.guru) of myriad players active in the ESG data environment

All the above left me wishing I knew more and had better access to the fundamentals of the ESG data world. Information on ESG data, what it was, the companies that offered it proved not only fragmented, but poorly explained and with a great sense of frustrating irony, rarely truly transparent being subject to basic issues of provenance, process, and quality.

This brief report is designed to provide a high level view of ESG and its underlying meanings. We ask the reader to use this as a reference point for what to look out for in each of the three ESG letters. Our more detailed analyses are available upon subscription.

### Lessons Learnt

Inevitably in a new environment, and one that is still evolving its own rules and standards, there are numerous lessons to be learnt. Not everything is straightforward when new players on the one hand bring innovation and free thinking, yet on the other ignores the lessons and principles of how a data business generates success. There is a definite lack of balance.

Some of the more obvious points working with ESG businesses threw up include:

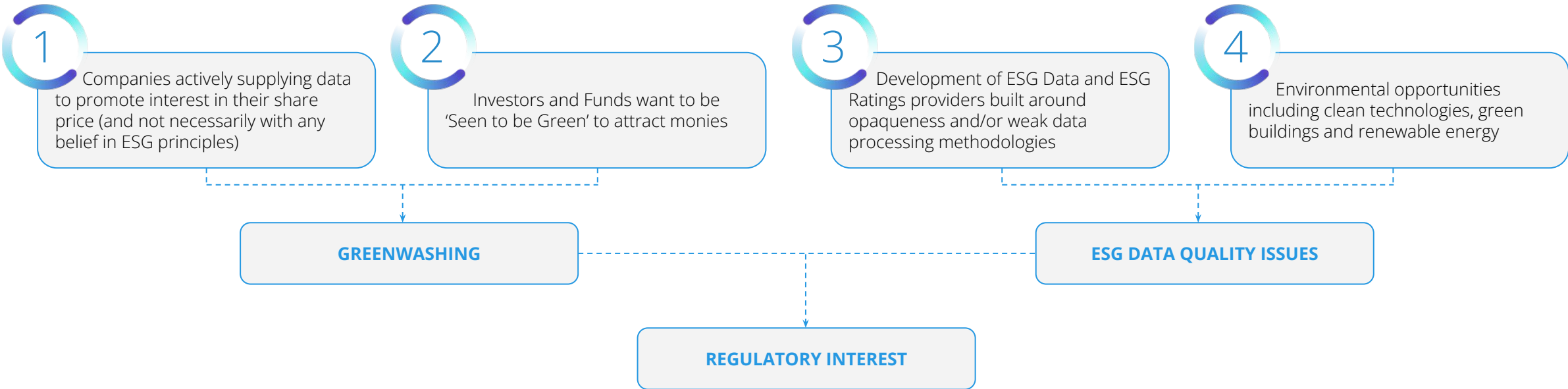
- The term ESG was first coined in 2005 in a report called 'Who Cares Wins' authored by Ivo Knoefel and commissioned by then UN Secretary-General Kofi Annan, backed by the International Finance Corporation and the Swiss Government.
- It seems no accident that many of the leading ESG Data businesses are Swiss.
- ESG is big, not only as a topic (reality many, many topics, sub-topics and a world populated by a wide range of extremely smart and engaging characters coming from all walks of life) but in breadth, depth, complexity, and unfortunately opaqueness.
- There is a lack of general understanding by traditional investors of what ESG is and why ESG data is different in terms of accessibility, construction, formats, and use, compared to traditional market and financial data. This leads too often to 'the blind leading the blind'
- On the flip side, the ESG world has poor perception of how traditional financial institutions consume and pay for data.
- Many ESG Data business models are inappropriate, and product pricing is quite literally unsustainable
- Both ESG data suppliers and consumers need to develop mutually intelligible waypoints to function effectively together
- ESG is not a fad, but each letter is going to diverge in the future



Market Interest

In the 2010s the interest in, and use of, Environmental, Social and Governance (ESG) data products has grown rapidly in breath and depth driven by investors' expanding interest in investing in companies that benchmark sustainability to how they are managed. Inevitably this has charged the development, role and influence of ESG data products, and arguable specifically ratings in global financial markets to become a significant factor in both investment strategies and corporate disclosure, no matter how imperfect

This has led to multiple outcomes:

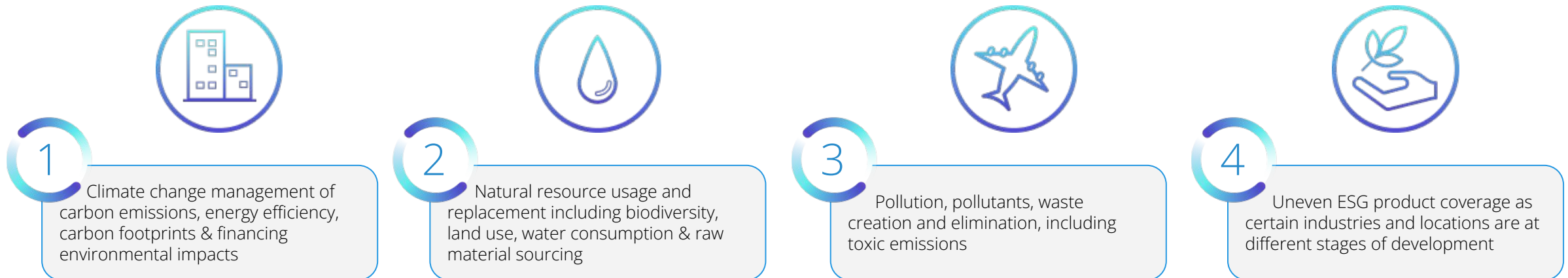


What this means to the ESG Data world is that traditional values of data quality must not only be applied but even more rigorously. Why? Because the motivations of the data sources, the (un)structure of their data, its accuracy, consistency and timeliness, followed by processing, re-formatting, are not always to the standards required, even if those standards actually exist.

**Definition: Environmental criteria take into consideration how we quantify our improvement on environmental risks we face today. This can include energy use, pollution, waste and water resources.**

This is the area most commonly associated with sustainable investing and the largest segment within ESG. It is also has the widest reach in terms of potential breadth and depth in terms of information, data coverage and data sourcing. On the downside it introduces a substantial level of complexity in assessing potential partners in terms of quality and coverage metrics.

There are 4 generally accepted themes contained within the environmental data segment which are:



Unlike much of either Social or Governance data most Environmental data is based on observable measurements, i.e. the data is objective, however given the range of data sources, the required breadth of coverage, and the ability of sources to be influenced depending upon their location means that a high level of due diligence is required.

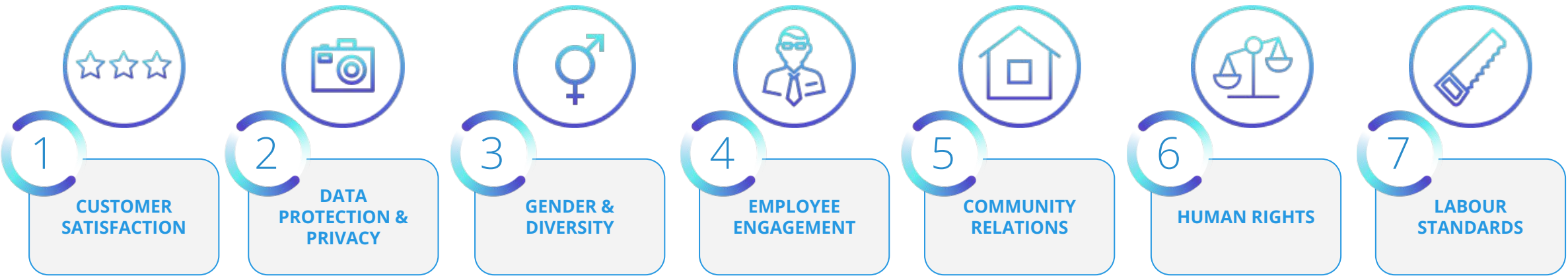
An important consideration when sourcing Environmental data is the question of knock-on impacts where data covering a specific topic, an example being Indonesian forest slash and burn activity has an effect far beyond its locality. For instance by influencing weather patterns, creating health hazards and causing transport disruption causing short term and long term economic costs.

This means when assessing Environmental data sources it is important to look at what is necessary to provide a complete overview comprised of complimentary datasets.

**Definition: ‘Social’ ESG Data assesses how operations impact communities at both the macro and micro levels. This includes relationships with employees, customers, suppliers and other stakeholders in our society.**

The theory behind the S in Social is that a fair, reasonable and non-discriminatory (FRAND) approach to business results in increased levels of productivity, raised employees’ satisfaction and retention, with better managed reputational risks. In such an environment activist stakeholder/shareholder pressure is reduced thereby providing a social licence to operate. This will always be a moving target.

The 7 types of information most commonly associated with Social data measurement are:



Unfortunately, the data required to provide relevant Social benchmarks can be especially subjective, and often the sources are survey driven. This is problematic as surveys can be manipulated to generate a preferred answer. As such the processes and methodology employed to produce the data outputs needs to be robust and continuously validated. It is also subject to the ever changing perception of accepted social values at any given time, both now and in the future. Motivation can be driven politically or by a vocal minorities uninterested in alternative viewpoints.

This places an heavy emphasis on knowing whether the Social data sources being employed and analysed have in place quantifiable processes for collating social data, then analysing it within a framework which needs to be adaptable.



**Definition: Governance regards how a company's operations should be conducted with accountability, transparency, and integrity. This can extend to company leadership and management, audits, internal controls and shareholder rights.**

This is the most established, therefore the most understood, letter of ESG as it has been of direct interest to investors longest. While the smallest segment of ESG, there is empirical evidence to suggest that best practice corporate Governance delivers higher levels of investment returns than either E or S at the moment at least. Hong Kong provides an example over the years of where powerful shareholders have found the value of their holdings (Swires) either boosted or hit (Chinese Estates) by their standards of management, governance and transparency.

When assessing potential data partners for governance data, the RobecoSAM's governance rating (The Economic Dimension Score 'EDS') provides one of the clearest ways to value its potential based upon 8 basic rules



There are challenges, for instance, the information required to produce good quality data outputs for Governance is usually unstructured, accessed in multiple formats and often in different languages.

This requires the ESG data consumers to trust their data sources have the requisite technology, with associated processes to extract data, and then create usable formats to put this data to work.

### ESG Associations & Standards

The lack of global standards has driven industry on one side and regulators on the other to attempt to promote common interests and standards. While the EU has gone furthest in defining regulatory principles the need for a common approach towards standards has encourage existing organisations and the formation of new bodies to become active in the field. Knowing who they are, what they do, and the oft forgotten how they do it, is critical to getting to know more about the world of ESG Data.

The key element is to understand that investment driven information and data is increasingly coming influenced by applying principles around 'Non-Financial Reporting Standards', of which Switzerland and the EU are prime drivers.

We have listed the 'go to' associations and entities below. It is notable these entities are primarily located in the US, UK and EU, and where they go the rest of the world will need to take notice.

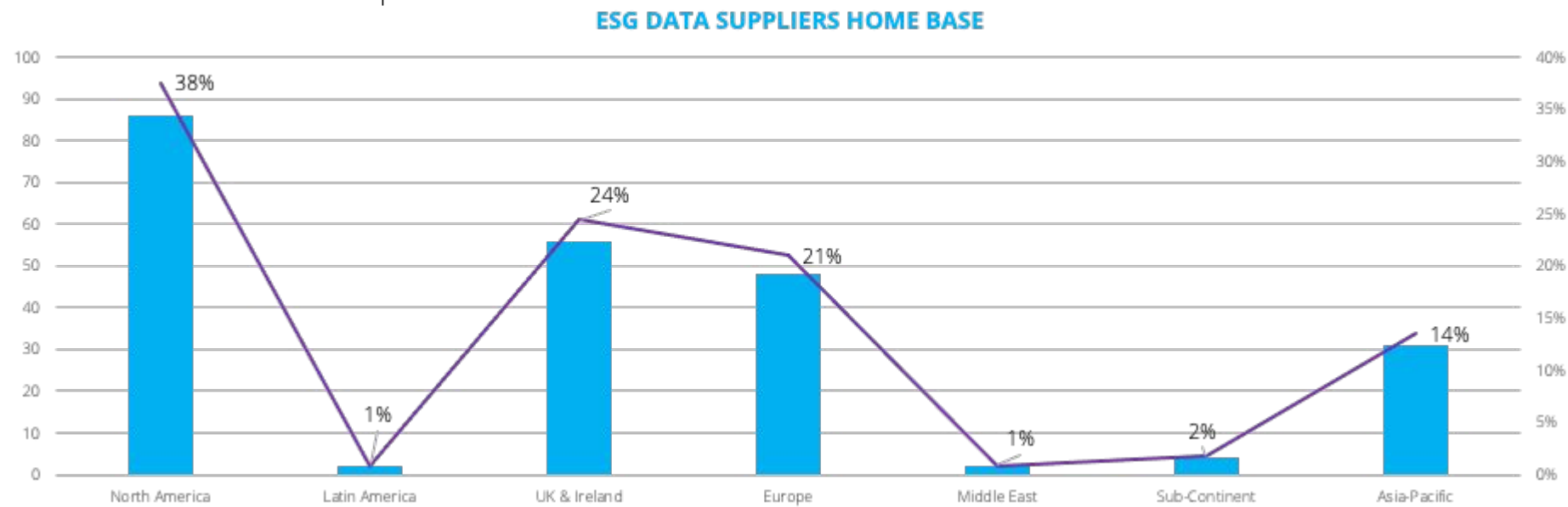
Entity	ESG Influence	HQ	Website
Climate Disclosure Standards Board		UK	<a href="http://www.cdsb.net">www.cdsb.net</a>
European Banking Authority	Regulatory Technical Standards	BE	<a href="http://www.eba.europa.eu">www.eba.europa.eu</a>
European Union	Sustainable Finance Disclosure Regulation	BE	<a href="https://eur-lex.europa.eu">https://eur-lex.europa.eu</a>
Global Reporting Institute		NL	<a href="http://www.globalreporting.org">www.globalreporting.org</a>
International Financial Reporting Standards Foundation		UK	<a href="http://www.ifrs.org">www.ifrs.org</a>
Task Force on Climate Related Financial Disclosures (TCFD)		US	<a href="http://www.fsb-tcf.org">www.fsb-tcf.org</a>
UK Sustainable Investment & Finance Association		UK	<a href="http://www.uksif.org">www.uksif.org</a>
United Nations	Principles for Responsible Investment	UK	<a href="http://www.unpri.org">www.unpri.org</a>
United Nations	Sustainable Development Goals (UNSDG)	US	<a href="https://sdgs.un.org">https://sdgs.un.org</a>
US Forum for Sustainable & Responsible Investment		US	<a href="http://www.ussif.org">www.ussif.org</a>
Value Reporting Foundation	Sustainability Accounting Standards Board	US	<a href="http://www.sasb.org">www.sasb.org</a>

Who is in the Market With ESG Data

The Global Initiative for Sustainability Ratings had identified over 125 ESG data providers in the market in 2016. By 2018 this had increased to over 600 global ESG data, ratings and rankings businesses.

MarketData.Guru on our website has 360+ entries for ESG data sources sorted by type provided by 229 individual companies across the world. These listings identify multiple specialisations, subsidiaries, and related entities which can be, and often are, located in other centres.

According to a basic analysis of the MDG listings it is immediately apparent that ESG Data activity is focused where the greatest pressure comes from investors searching for Green Data to validate their holdings, i.e. the US, Canada, UK, and Europe. *(More detailed analysis is available on a subscription basis)*. The below chart shows where these businesses have their headquarters.



### ABOUT MARKET DATA GURU

[www.marketdata.guru](http://www.marketdata.guru) is an unique resource providing independent thoughts, insights and perspectives, into the ever expanding yet somewhat murky market data world. It is quite amazing how many information businesses, and trading venues prefer to be less than transparent about themselves.

We are not about marketing and sales we seek to shine a light on what really drives the business of market data, analysing trends, motivations and opportunities in a way that is both clearly explained and relevant to business and casual observers alike.

On our website we provide our own articles, reports, business profiles and our own listings of who provides what type of service, and where you can find them. All produced inhouse by us, except where specifically stated and acknowledged.

### The Ubiquitous Disclaimer of Information Accuracy

Our documents, reports, all information and data provided therein, and residing on our website, [www.marketdata.guru](http://www.marketdata.guru) is provided in good faith and should not be seen as an inducement or invitation to engage in any activities of a financial nature.

Please remember, much of the data we provide is free, companies and people change, information gets out of date, trusted sources can get things wrong, so while Market Data Guru, DataCompliance, and our partners have exercised our best efforts, we cannot guarantee the accuracy and completeness of the information contained therein or eliminate the possibility of any inaccuracies.

Due to these limitations, and to the extent permitted by applicable law, Market Data Guru, partners, and sources, accept no liability whatsoever for any loss or damage caused by use of, or reliance upon, our information, data and services. Should readers and recipients of our information, reports, articles and data choose to act upon our offerings, this is done at their own recognisance and risk.

If you do see any errors or information that ought to be checked again, please contact us, let us know, we won't cry, though the guru might pout a bit.