

Future of sustainable data – initial recommendations

After launching in January 2020, the Future of Sustainable Data Alliance has agreed the following initial recommendations for the financial community including the regulators and industry. There are 3 primary themes: 1) Defining and creating a path to filling ESG data gaps and data holes, 2) mapping data to sustainability taxonomies and 3) the need for ESG data talent development globally.

WHAT IS THE PROBLEM AND WHY IS IT IMPORTANT?

The current ESG data landscape is plagued by **data gaps and data holes**. The former refers to missing information related to a specific data point that is already being collected. For example, data on greenhouse gas (GHG) emissions is well defined, but not all companies report it.

While the industry is familiar with the issue of data gaps, **the Alliance believes there is an even greater issue with data holes** – missing datasets that are not collected at all or that are not available for analysis, such as data on biodiversity risks which has poor availability and is not reflected in reporting.

Data holes can lead to challenges for a) investors as they attempt to deploy capital sustainably, b) companies and issuers looking to benchmark their actions, and c) regulators and policymakers that need to assess systemic risk and create policy around disclosure, risk management and broader sustainability issues.

This Alliance will focus on identifying the data holes, supporting the minimisation of data gaps and sharing that knowledge with regulators and industry.

Inadequate data makes it more **difficult to identify areas where regulation or further public action might be needed** – and complicates the monitoring and evaluation of sustainable investments. As the world looks to “build back better” after the COVID-19 pandemic, any ‘green strings’ that are being attached to government recovery spending must be tracked and monitored. Data is needed to do this effectively.

Challenges are further compounded by the **lack of standardisation in company reporting on non-financial ESG items**, thereby decreasing the reliability, consistency and comparability of the data that is available.

Together, the data gaps, data holes and lack of standardisation impede the use of ESG data. They hinder the assessment of ESG risks by financial institutions, **limit the ability of investors to clearly identify and allocate funding to sustainable businesses and projects**, and prevent governments and regulators from identifying deficiencies in compliance.

As we identify data challenges, the Alliance recognises it is also important to:

- **Spread the burden** of cost and time needed to report, collect and process ESG data across actors in the economy (i.e. corporates, data providers, sustainability rating agencies and investors) rather than promoting concentration.
- **Think beyond today’s regulatory requirements** (often focused on climate) and develop datasets that will promote a holistic understanding of sustainability risks and opportunities and anticipate future policy and regulatory action (e.g. biodiversity related data and future stress-testing requirements to support Net Zero targets).
- **Avoid working in silos** and align the data-centric work of initiatives such as the NGFS,¹ IPSF,² TCFD,³

¹ NGFS – Network of Central Banks and Supervisors for Greening the Financial System

² IPSF – International Platform on Sustainable Finance (IPSF)

³ TCFD – Task Force on Climate-related Financial Disclosures

TNFD,⁴ different Taxonomies (e.g. in the EU and China) and the work on non-financial reporting standards being progressed by the IFRS Foundation,⁵ IOSCO,⁶ EU, as well as standard setters and frameworks such as SASB,⁷ GRI,⁸ CDP,⁹ CDSB¹⁰ and IR.¹¹

With this in mind, the Future of Sustainable Data Alliance has set out the below **initial recommendations for regulators, governments and the industry** meant to act as a starting point in addressing data holes and reporting issues, with the view to **improve investment grade sustainability data** to enable the achievement of the UN SDGs, Paris Agreement goals and a sustainable post-Covid recovery.

KEY RECOMMENDATIONS

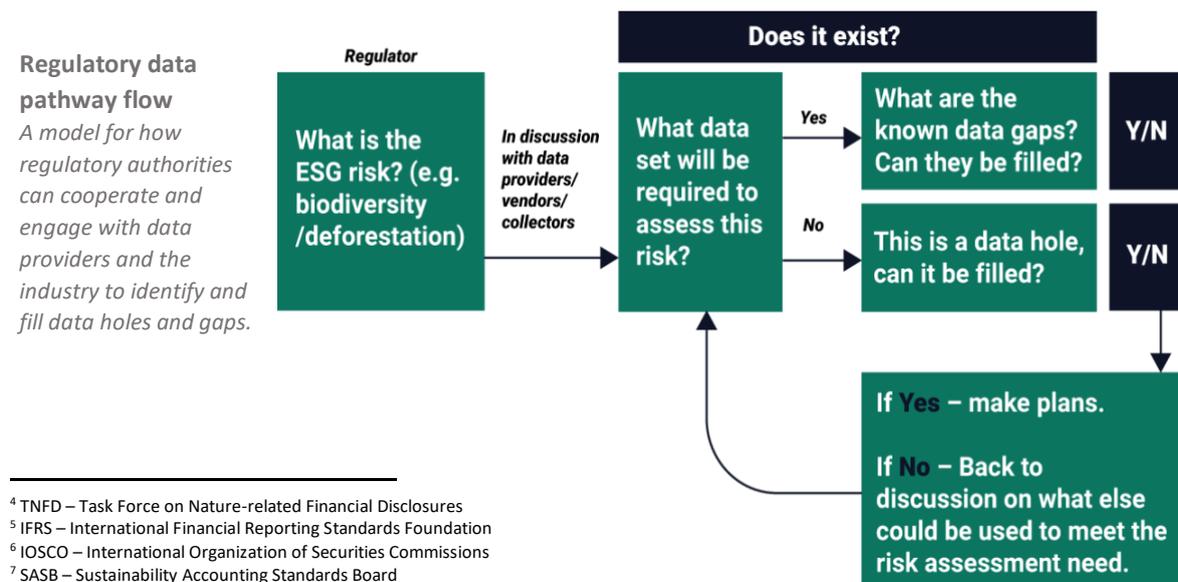
1. Map and address data holes

To articulate the future data requirements missing datasets need to be clearly identified and missing area shared with regulators, corporates, data providers and the financial sector. The first data hole identified by the Alliance is **data for biodiversity**.

For example, nature-related and biodiversity issues are a new frontier and regulators, data providers and investors should collaborate to determine the datasets required to assess risks and efficiently comply. For instance, 20% of companies disclosing ESG data at present also disclose data on impacts to biodiversity and nature (and even these are insufficient to gain a clear picture of exposure to biodiversity-related risks and opportunities). A well-defined metric such as deforestation data only yields 13% of companies' disclosure.

This illustrates a large data hole that will impede the industry's ability to analyse impacts on biodiversity. No matter what policy is implemented, without the data, there will be no adequate progress in this area.

Where there are such holes, plans should be made to fill them (e.g. through targeted reporting requirements, or by opening up government macroeconomic or environmental, as well as 3rd party data being collected) or to explore alternative paths to meet risk assessment needs if the data cannot be collected through reporting and disclosure or obtained through other means (e.g. geospatial data).



⁴ TNFD – Task Force on Nature-related Financial Disclosures
⁵ IFRS – International Financial Reporting Standards Foundation
⁶ IOSCO – International Organization of Securities Commissions
⁷ SASB – Sustainability Accounting Standards Board
⁸ GRI – Global Reporting Initiative
⁹ CDP – Carbon Disclosure Project
¹⁰ CDSB – Climate Disclosure Standards Board
¹¹ IR – Integrated reporting framework

- **Call for financial industry, supervisors and biodiversity experts** to help identify datasets required for assessment of biodiversity impacts of economic activities and investments.
- **Call for regulators to consider data holes** before drafting policy requirements – specifically for biodiversity impacts, as well as including geospatial data needed to support proper understanding of other datasets.
- **Call for cooperation** (between regulators, data providers, industry) on the issue of data holes – given that developing standardised and complete datasets requires large amounts of investment and coordination across a broad range of actors and is unfeasible for any single private entity.
- **Commitment from FoSDA** to continue to identify data holes and publish findings.

2. Move away from binary reporting

Corporate reporting still heavily results in binary disclosure on ESG issues. For example, most company reporting on deforestation and water management issues captures if an issuer has a policy or not. The dataset captured is a binary yes or no answer which lacks any detail to determine if these policies are robust or how they compare with other entities. Such datasets bring little value to financial risk-assessment and decision-making.

In order to ensure availability of meaningful, decision-useful data, regulators should move towards more metric oriented reporting when setting out non-financial reporting requirements (as is likely to happen in the EU with the review of the Non-Financial Reporting Directive).

Pending regulatory action, corporates could look to rely on existing standards (such as SASB and GRI) to report on ESG issues in a more granular manner, while financial institutions and data vendors can continue to play a role in articulating data points needed to answer ESG data needs.

- **Call for regulators** to review and enhance binary data reporting requirements.
- **Call for issuers** to suggest metrics to improve current binary data reporting to maximise disclosure efficiency.
- **Call for regulators** to support ESG reporting standards and for taxonomies to be developed and leveraged as they help move from coarse binary data to detailed, more-grounded assessments of performance.

3. Increase focus on forward-looking data

Existing ESG datasets often focus on backward-looking, historical data. In order to reorient towards data that is most decision useful for ESG risks that tend to have long-term horizons, regulators could reinforce the focus on forward-looking datasets through supervisory reporting and scenario analysis requirements for financial institutions and reporting requirements for corporates.

- **Call for regulatory authorities** (including prudential regulators, central banks and NGFS) to engage with FoSDA to identify forward looking data requirements (for stress-testing and other policy developments), while ensuring harmonisation and interoperability between ESG reporting, climate-risk management and green finance standards.

4. Standardise corporate ESG reporting

To truly tap into its potential, ESG data needs internationally consistent, well defined metrics and reporting requirements that allow clear company comparison and enable portfolio and investment choices.

Increased corporate reporting on ESG issues without reliance on non-financial reporting standards is likely to result in data that is not comparable, reliable or comprehensive.

The Alliance therefore welcomes the work done to date by standard setters and frameworks such as SASB, GRI, CDSB and TCFD, as well as the work that will be taken forward by the TNFD. The ongoing IFRS Foundation workstream on a possible move towards a global non-financial reporting standard setter and the efforts being made at the EU level to move the debate surrounding standards are also particularly welcome.

While these standardisation efforts are ongoing, promotion of ongoing partnership and dialogue between the public and private sectors (as well as between stakeholders such as companies and investors) on data needed for disclosure and reporting standards should continue.

These efforts could include surveys meant to answer some of the key questions such as: how difficult/easy it is to find and disclose the needed ESG data; is it significantly more difficult/costly in one sector vs another or in one country/region. Frequency of update is also an issue to explore, with data often being updated annually, with the question on what is most useful while keeping in mind the cost of delivery.

- **Call for standard setting bodies**, including the IFRS Foundation, to accelerate convergence towards common standards and definitions in the ESG reporting space – in partnership with data companies.

5. Sustainability taxonomies need to be mapped to underlying data

The development of sustainability taxonomies has fast become a hot topic with many jurisdictions creating these definitional frameworks of what is and what is not “green”. While harmonisation of these taxonomies might be some while off, work on the comparison of the various global taxonomies is already under way (e.g. through the work of the International Platform on Sustainable Finance). A crucial next step that needs to be undertaken is the clear mapping of the datasets required to fulfil each of the taxonomy obligations. This mapping between taxonomy definitions and approved dataset definitions is necessary work to make efficient use of the taxonomy frameworks. The Alliance also calls for mapping of datasets between taxonomies in order to create a clear picture of where datasets are used in multiple taxonomy definitions and where unique datasets are required to comply.

- **Call for EU, China, Japan, Canada, Malaysia and other published and in development taxonomies** to define datasets required in line with their taxonomies.

6. Move away from singular dataset focus

There is a need to shift the thinking surrounding data availability and use towards an understanding that there is (untapped) value in combining different types of datasets.

For example, integration of geospatial data into financial practices has a high potential to help manage

sustainability related risks, opportunities and impacts – geospatial data is particularly useful as it is often traceable and verifiable, easily comparable, readily available, scalable and accurate.

However, if it is not combined with asset location data, geospatial data is of limited use. By combining datasets, analysts can more easily account for negative impacts of company’s physical footprints and assess the risk exposure of assets (e.g. by looking at eroding shorelines and resulting increased risks of flooding impacting a company’s factory locations).

Data availability should be understood through this prism of interdependence and interplay by both the investment industry and regulators. This may require the industry to build models to easily link disparate data for more efficient analysis.

- **Call for governments and supervisors** to promote the availability of asset-level data to include location data in order to leverage the power of (geospatial datasets. The benefits of this combined data directly support measurements of impacts on biodiversity
- **Call for financial regulators** to integrate diverse datasets – including spatial data – and analysis requirements in existing voluntary and mandatory disclosure frameworks.
- **Call for investors** to identify datasets that bring more value when combined and to build out multidisciplinary data science capabilities to leverage value from multiple types of sustainability datasets.

7. Talent development & capacity building in the sustainability data industry

The growing availability and reliance on sustainability data requires capacity development in order to ensure that such data is properly reported, collected, assured, analysed and leveraged in investment (and other) decisions.

Governments and regulators, as well as the industry, could look to support data skills development programmes, and should keep in mind that multi-disciplinary talent is required to evaluate and use of the varied ESG datasets. Qualifications and subsidies for developing talent hubs in ESG data analysis could be considered.

Similarly, regulators can look to allow small scale testing of ESG data related innovation by private firms (i.e. create ESG sandboxes) and industry can create innovation accelerators for the promotion of sustainability capabilities through innovation such as AI and blockchain to allow for greater transparency and data interoperability.

- **Call for governments** to encourage innovation and small-scale testing (incl. through ESG sandboxes) for innovation and use of sustainability data to accelerate efficiency.
- **Call for governments** to support capacity building and education for sustainability data scientists to build the talent pool available to financial institutions and regulators.

NEXT STEPS

The Alliance will prepare a roadmap setting out a plan of action to identify concrete steps it can take to help advance some of these recommendations, especially in terms of identification and filling of data gaps and holes, as well as contribution to the mapping of data needed for taxonomies and building up of talent needed to execute this.

The Alliance will prepare a report, taking these initial recommendations and developing a more detailed view of the steps needed to address key challenges in the ESG dataspace.

The Alliance will seek to engage with regulators with the view to help identify data sets that are available and those that might be needed, with the view to help regulators gauge the availability of adequate ESG datasets needed to ensure compliance with ESG regulatory requirements.