LSFI
Let's make sustainable finance happen

ESG Data

Outcome Report from LSFI's Working Group

June 2024

Executive Summary

The working group, consisting of 13 members from various financial services, analysed the current challenges and provided **recommendations specific to each asset class** for **financial practitioners, policymakers, and the LSFI.** Moreover, the working group **developed a questionnaire to be used by financial professionals** dealing with data providers.

In general, the working group identified that all asset classes currently face challenges related to:

- **Reliability** of the data;
- Absence of global standards and thus difficulties in ensuring **comparability and consistency**;
- Lack of **transparency,** especially associated with methodology opaqueness;
- **Cost** issues related to acquiring the data but also the technology required and companies' reporting;
- Complexity and rapid **regulatory changes**.

Recommendations

After assessing the general ESG data challenges, as well as those by asset class, the working group **recommended best practices and guidelines** that are summarised below:

- **Private Assets:** Collaborate with portfolio companies, create a clear and transparent internal evaluation framework, and continuously assess key information to maintain consistency in metric calculations across portfolio companies. Develop strong internal frameworks to adhere to strict criteria. Integrate ESG reporting and data acquisition costs into fund expenses through negotiations in the Limited Partnership Agreement.
- **Listed:** Perform comprehensive initial due diligence on data providers. Use multiple data providers for comparison, if feasible within budget. Ensure transparency on whether the data is raw and how it has been aggregated and manipulated. Report transparent and reliable KPIs. Develop a precise data architecture by centralising data, and establishing a clear audit trail, track record, and golden source.
- **Debt:** Engage with companies using dedicated or shared questionnaires to gather ESG data. Assess various reporting frameworks and ESG data providers to find solutions and sources that ensure neutrality, trustworthiness, and transparency. Train relevant staff to prepare for third-party audits, certifications, or assurance of ESG data reported by borrowers. Utilise public data sources to supplement your ESG data set with publicly available information by geography or sector. Evaluate potential partnerships and collaborations with fintech companies, scientific experts, or academics.
- **Indirect Investment:** Align your portfolio's objectives with an established framework (e.g., SFDR). Tailor the ESG objectives of your product to mitigate the risk of divergence over time with the underlying instruments. Ensure consistency in your data and methodology across the organisation. Look for synergies in acquiring and maintaining ESG data from aggregators (such as EET aggregators) while being cautious of not encouraging data monopolies.

To complement the recommendations, the working group elaborated a set of **key questions to be asked by financial professionals** when dealing with data providers. The questionnaire includes questions to assess the data quality, the data scope and coverage, the data sources,

the methodologies used, the data management, the data delivery structure, and the interoperability of the data, among others.

Together with the recommendations issued for financial professionals, the working group also **suggested policymakers** to prioritise digital access to structured data and pursue efforts in developing global reporting standards. In addition, they suggest to foster alignment of underlying measurement methodologies, provide free resources and training and require transparency over ESG raw data.

Likewise, understanding the key role of the LSFI as coordinator and facilitator of sustainable finance, the working group recommended the **LSFI to reinforce its Take Action – Instruments toolkit**, as well as offer masterclasses that would help financial practitioners face their current challenges.

The following outcome report details the methodology employed by the working group and offers a comprehensive explanation of the identified challenges and recommendations for practitioners. Within the report, the whole set of questions to be asked to data providers is also included.

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1. About the Working Group

1.1. Context

In the transition towards sustainable finance, having appropriate, granular, and reliable data is crucial.

Over the past few years, there has been a growing demand by investors, regulators and consumers for increased transparency, disclosure, and standardisation in the ESG domain. Data plays a pivotal role in meeting this demand. It is also considered critical for guiding investment decision-making, conducting risk assessments, and developing corporate sustainability strategies. Moreover, it is vital for understanding one's current position, tracking progress over time, and assessing the impact of sustainable investments in the real economy.

In addition, there has been an increased focus on ESG Data within the European Sustainable Finance regulatory agenda. In order to create a level playing field in this domain, as well as to foster transparency, sustainable finance regulations have increasingly mandated extended use of ESG data across the financial sector[1]. Reliable ESG data is required across the value chain, whether it is for investment decisions or lending purposes, to risk management, compliance and reporting.

However, in the realm of sustainable finance, data has long been a challenge. Traditional data relied upon by the financial industry is no longer sufficient and has gradually evolved into new dimensions encompassing environmental, social, and governance parameters. These changes subsequently pose difficulties and a change of paradigm for the sector across functions and decision-making processes. Nevertheless, it is only through comparable, standardised data that the transition can continue.

Over time, the LSFI has focused on better understanding the challenges faced by the financial sector within the sustainable finance domain with the view of proposing practical solutions to overcome them. During meetings and collaborations with sustainable finance players, the Luxembourg Sustainable Finance Study[2], as well as during the LSFI annual stakeholder assembly[3], the importance and challenges associated with data have been consistently highlighted.

However, amidst the ongoing discussion around ESG data and its challenges, questions remain: What constitutes ESG data? How do we measure and report it? And what are the precise challenges? Is it one single issue that has to be solved or many more small or big ones? Are these interlinked? How can we address them?

In this context, the LSFI launched the ESG Data working group seeking to bring clarity to the current challenges and provide first-hand assistance to the financial sector in overcoming these difficulties, whilst simultaneously ensuring a broad understanding of their complexity and interlinkages.

[1] High-level information on the relation of ESG data and the EU sustainable finance regulatory agenda can be found in the annex II.
[2] https://lsfi.lu/study-release-sustainable-finance-in-luxembourg-2023-an-expanded-overview/
[3] https://lsfi.lu/stakeholder-assembly-2023/

1.2. Objectives

Recognising the need to clarify the precise ESG data challenges faced by the different financial sectors as a crucial step toward overcoming them, the LSFI initiated a working group on ESG data. This group, composed of experts from diverse industries and sectors, sought to address and explore these challenges in depth. The focus of the working group was two-fold:

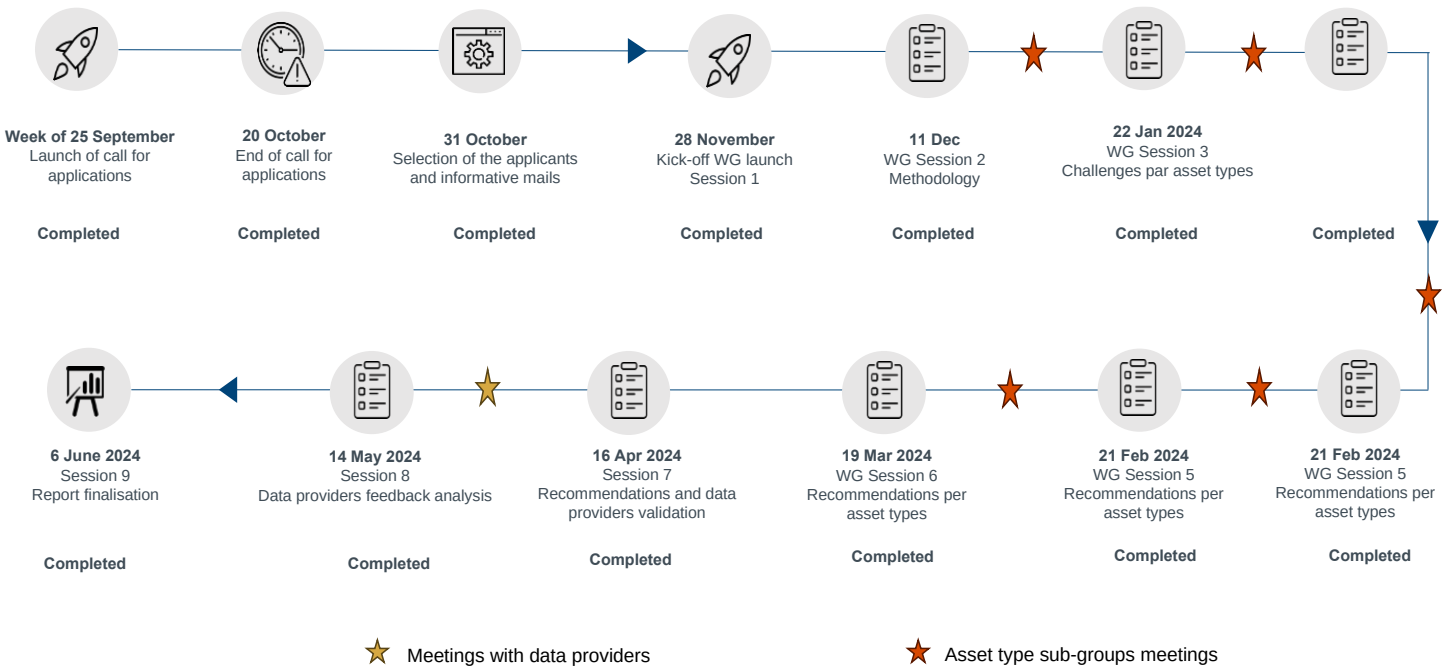
- Address the lack of definition and clear understanding of what exactly the ESG data challenges are (e.g., type, coverage, accessibility, usability, …) providing clarity and guidance through the use of examples and tips.
- Support financial institutions by creating a guideline including key questions to be asked to data providers for financial institutions to better understand the type of ESG data they are using, their implementation process and increase the reliability and impact of these data sets.

1.3. Timeline and Meetings

In September 2023, the LSFI launched the call for applications for the working group. The working group's objectives, as well as membership requisites, were set out in its specific terms of reference.

Following a selection process, the kick-off session was held in November 2023. From that date until the publication of this outcome report, nine plenary meetings were held. In addition, members were split into different subgroups[4], meeting 5 times each of them in between the working group plenary sessions; 6 additional meetings were also held with data providers. All these concluded with the working group's results and suggestions that are outlined in this document.

The graph below provides an overview of the working group timeline.



[4] The methodology section provides further information about the subgroup's themes and roles.

1.4. Members

The working group was composed of 13 members with relevant experience and expertise in the field of sustainable finance and ESG data who were willing to contribute actively and regularly to the objectives of this working group.

The members were appointed by the LSFI board based on their profile, experience, expertise and availability of the applicants whilst ensuring a balanced representation of stakeholders.

Please find below the list of members:

- Eleonora Maria BELENGHI, Deloitte
- Selim BOUDHABHAY, Principles for Responsible Investment (PRI)
- Nathalie DOGNIEZ, Independent Director
- Julien FROUMOUTH, Luxembourg Bankers' Association (ABBL)
- Pascal GEITER, Allianz Capital Partners
- Pierre-Mickael GÉONET, UBS Group
- Louis-Arnaud ISCLA, Freelance Advisory
- Béatrice MÉTHÉ, Primera Purpose Advisory
- Ala PRESENTI, Moniflo
- Marie-Laurence RIBES, Banque Internationale à Luxembourg (BIL)
- Alexandros SEVERIS, Intercontinental Exchange (ICE)
- Virginie WAUQUIEZ, Carbon 4 Finance
- Ludwika ZACHARZ-HARAZIM, European Investment Fund (EIF)

Nathalie DOGNIEZ was appointed the Chair of the ESG Data Working Group and Selim BOUDHABHAY the Vice-Chair.

2. Methodology

To address the lack of definition and clear understanding of what exactly the ESG data challenges are, the working group identified a methodology to define the scope, the angle of analysis and the process to follow.

2.1. Scope

The working group decided to focus on examining the challenges associated with the **ESG raw data**[5] which is used by financial institutions in the context of investment/lending or commercial decision, risk assessment, ESG performance assessment, and investors and regulators' reporting. The decision to prioritise ESG raw data was taken given that it forms the foundation for other derived data, such as scoring and ratings.

Reported ESG raw data are either measured or estimated depending on the nature of the information. For instance, in the case of scope 3 emissions, these remain largely estimated.

2.2. Process followed

Selection of angle of the analysis

As an initial step, it was determined that selecting an angle of analysis and examining the ESG data challenges by clusters was necessary. The following different types of angles were considered:

[5] ESG raw data are defined as ESG datapoints, used to calculate ESG indicators (such as PAIs), ratios (such Taxonomy alignment percentage) or assessment (such as ESG scoring or ratings). ESG raw data can either be measured or estimated. Estimation may be performed by the company itself (scope 3 emissions for instance are usually estimated by the reporting entity), data providers or data users.

- By use case (across the investment or lending value chain): company assessment, investment or lending decision, risk assessment and ongoing risk monitoring, ESG performance measurement, impact measuring, investors and regulators reporting.
- By type of financial institution/sector (e.g., banks, asset management, insurance).
- By asset types (e.g., listed equity, private assets, debts and indirect investments).

Amongst these, examining the data challenges *by asset type* was considered the most relevant angle of analysis given it is the type of assets that ultimately influence the availability and the process of retrieving ESG data. This approach enabled the working group members to harness the different ESG data challenges with a more accurate level of granularity[6]. For example, ESG information for listed companies is self-reported and also frequently made accessible through data providers or via public reports; while for private assets, information may very often be sourced through only direct contact with the company itself.

In particular, the working group decided to analyse the existing data challenges within each of the following asset types:

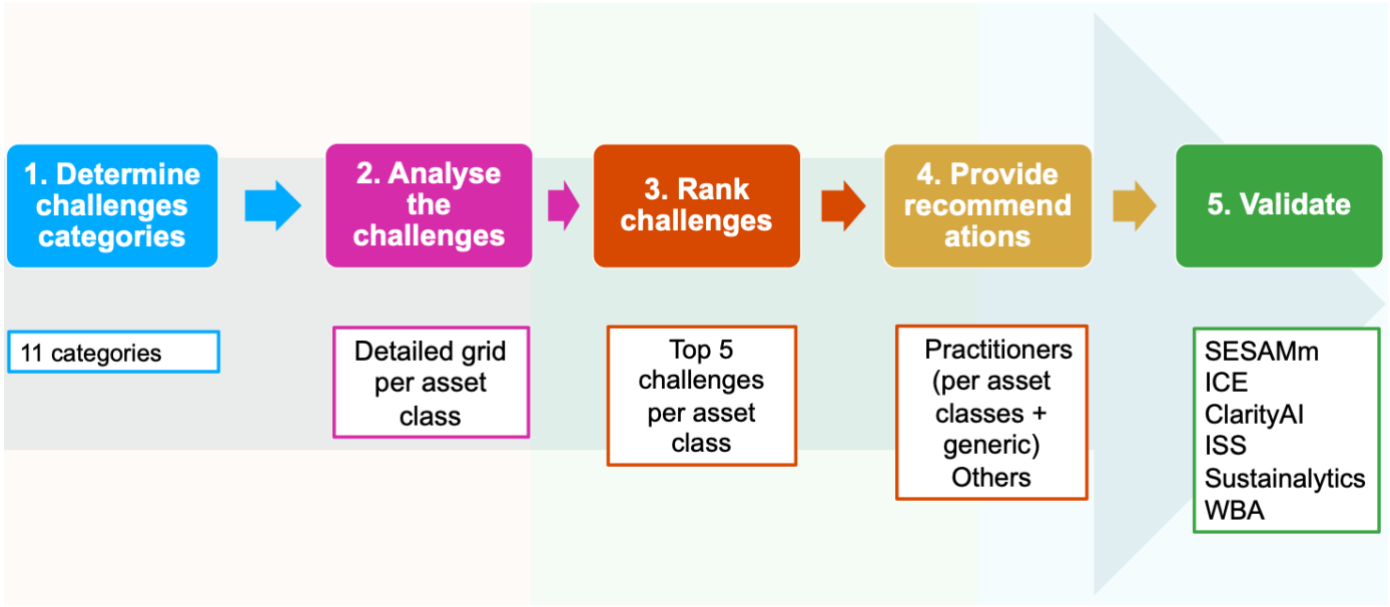
- **Private Assets:** this category includes any direct investment in private companies (private equity investment), infrastructure and real assets (real estate) investments. ESG information can be obtained either from the investment itself (particularly if the investment is controlled by the investor) or through specialised databases or data providers.
- **Listed:** this category includes equity or bonds from listed companies. ESG information in relation to listed companies' investments, through the form of equity or bond investments, is usually gathered from public sustainability reports and can also be obtained through data providers.
- **Debt (private, secondary, public debt):** this category includes loans (direct lending, syndicated loans), debts acquired on the secondary market as well as government bonds. Depending on the company size and nature of the instrument, the information can be obtained either from the company itself or through public information channels or data providers.
- **Indirect Investment:** this category includes any investment made through another financial product (such as funds of funds, mandates invested in other funds or MoP insurance products) or financial instruments (structured products, derivatives). ESG information can either be obtained from the intermediate products/instrument or assessed by a look-through approach (i.e. obtaining underlying portfolio details and gathering ESG data for each of the underlying portfolio positions).

Steps followed

The working group members followed a set of steps allowing them to examine the existing challenges, provide definitions and clarifications, as well as examples and recommendations. They focused both on the challenges that apply across all the asset classes, as well as granularly assessing challenges specific to individual asset classes.

[6] *By use case*, financial institutions use the same data or data sources across the different investments or lending process phases, doing differently could expose themselves to criticism, potential regulatory issues or greenwashing accusations. Similarly, *by type of financial institution/sector*, the working group members realised that when performing the same activity such as investing, banks, asset managers and insurers require similar data and face comparable challenges.

The steps followed were:



The first step consisted of determining the features to be examined upon assessing ESG data. In particular, the working group identified the following categories (challenge categories grid):

- **Availability and accessibility**: refers to whether data is available; on some occasions, it might not have been measured/captured or it might be difficult to obtain;
- **Relevance**: refers to whether the data available is relevant for the specified use case;
- **Reliability and liability**: refers to whether the data is reliable and thus, if the end-user may be liable for incorrect disclosure or misrepresentation. Several factors may influence the reliability of the data, including whether the data is measured or whether it can be easily estimated (and if so, the relevance of the estimation model) and whether it was subject to an independent verification (and if so, under which assurance standard);
- **Comparability and consistency:** refers to whether the data reported under different standards is comparable or consistent;
- **Forward-looking and transition data:** refers to whether the transition plans require forward-looking data;
- **Fast-moving and demanding regulation:** refers to whether the new regulation(s) might increase the scope of data required;
- **Technology and data management:** refers to whether the volume of data and complex data validation process may require heavy technology investment;
- **Cost:** refers to the cost needed for preparing, acquiring and validating the data;
- **Confidentiality:** refers to whether the data may be confidential or subject to non-disclosure clauses.

The second phase involved assessing the challenges associated with ESG data for each of the aforementioned features. Working group members' individual experience and exposure to asset classes determined their allocation into subgroups, with each subgroup concentrating on a distinct asset class. The above challenge category grid was used to determine and illustrate the actual challenges. The working group examined both common challenges across all asset classes and those specific to each asset class.

During the third phase, the subgroups ranked the challenges according to their significance; this was done based on the experience and exposure of the working group members to that particular topic. They also identified the top 5 challenges per asset class.

These steps served as the basis for developing the outcome and recommendations of the working group (phase 4). Specifically, the working group described the main ESG Data challenges of each asset class. They also identified the key difficulties and the main priorities. Following this, the members issued a set of recommendations to tackle the data challenges. They distinguished among those targeting practitioners and those for regulators, as well as the next steps to be developed by the LSFI. In addition, they developed a questionnaire containing a list of practical questions to be used by financial professionals when performing due diligence on data providers.

At each stage of the process, the subgroups' results were exchanged and discussed in plenary working sessions, to agree on prioritisation, enrich the analysis and ensure consistency of findings.

As a final step, the working group validated the challenges identified and the recommendations by meeting different data providers. The interviews were conducted online, and the focus was solely on the scope of the current working group, namely raw ESG data. In particular, the members met:

Data provider	Asset types	Meeting date
SESAMm	Private	17 April 2024
Intercontinental Exchange (ICE)	Debt	23 April 2024
ClarityAI	Indirect	26 April 2024
World Benchmarking Alliance (WBA)	Debt	2 May 2024
ISS ESG	Listed	6 May 2024
Sustainalytics	Indirect	6 May 2024

3. ESG Data Challenges Analysis

Following the working group's first objective, the members worked on addressing the lack of definition and clear understanding of what exactly the ESG data challenges are; in particular, they analysed the challenges that are common to all the asset classes as well as those pertaining to each specific class.

3.1. Key challenges across asset classes

Following the outlined process, the working group identified and evaluated the challenges associated with ESG data across all analysed asset classes:

1. **Reliability:** challenges take place due to the complexity of measurement, multiple estimations in the reporting process and shortage of skills required (assessment, reporting and verification). Moreover, third-party verification remains limited in scope and coverage.

2. **Comparability and consistency:** issues arise due to the absence of global standards and methodologies.
3. **Transparency:** concerns include methodology opaqueness and incomplete disclosure.
4. **Costs:** issues encompass expenses related to acquiring and managing data, technology, and the cost of reporting for underlying companies.
5. **Complexity and the rapid regulatory changes:** the pace of change requires continuous adaptation of the ESG data scope and processes.

3.2. Challenges specific to each asset class

The working group identified that certain asset classes face different challenges in line with their inner particularities; and they sought to classify them in order of priorities. The following section presents an overview of those challenges.

Private Assets

1. **Availability** and **Accessibility**: Accessing accurate and comprehensive ESG data on private companies which are not yet required to disclose such data, poses a significant challenge. This difficulty is even more pronounced for ESG data on **SMEs**.
2. **Reliability** and **Liability**: Investment managers and asset owners face these challenges both on a target-company-level, as well as towards their own investors (also known as **Limited Partners** or LPs). Without specific rules, financial professionals must rely on their interpretation of the data and follow their LPs' requirements, which vary in specificity and demands. The lack of regulation mandating ESG disclosure for **SMEs** heightens that challenge.
3. **Comparability** and **Consistency**: The lack of uniformity in measurement methodologies hinders the accessibility of comparable ESG data for analysis and decision-making. Different definitions and a lack of a standard reporting further compound this issue.
4. **Cost**: Private companies, particularly **SMEs**, may lack the resources to disclose the required data and may incur additional costs to gather it. Budgetary constraints and resource limitations may hinder the data gathering exercise.
5. **Fast-moving** and **Demanding Regulation**: The rapid evolution of ESG regulations and reporting standards poses challenges for private equity markets to remain compliant. This dynamic environment may lead to compliance gaps, uncertainties, and increased complexity in managing ESG data. The lack of regulatory requirements has led to the emergence of various initiatives, resulting in confusion and scalability issues.

Listed

1. Reliability and Liability: The primary challenge relates to the reliability of **self-reported data by companies**. Although the CSRD will improve this by imposing limited assurance on sustainability reports, estimation within reported data will remain an issue.
2. Comparability and Consistency: Currently, there is a lack of **harmonisation in calculation methodologies** for the same KPI across entities and products. Additionally, there is a lack of comparability over time as companies evolve in their sustainability journey, and different geographies have varying regulations and standards.
3. Transparency: Reporting **methodologies lack transparency**, and there is limited accessibility to metadata indicating under which methodology or standard the information was prepared.

4. Technology and Data Management: ESG data involves a large volume similar to "big data", requiring **proper data architecture** for management, understanding, and monitoring of ESG performance. There is also needed to optimise the calculation and reporting systems when the same KPI is required by different regulations, e.g., Taxonomy alignment
5. Cost: Significant **internal investments** are required for data architecture, skills, and personnel, along with substantial external investments in multiple data providers.

Debt

1. Availability and Accessibility: Accessing ESG data is challenging due to the predominance of **smaller-scale, non-listed private credit borrowers who** are **less regulated**. Some platforms have yet to fully integrate all relevant ESG data for various asset classes.
2. Transparency: Private issuers may **not fully disclose their ESG practices**, necessitating detailed research. Additionally, there is a lack of transparency regarding methodological changes over time.
3. Reliability and Liability: Private debt investors require verified and reliable data sources to avoid the risk of greenwashing. The **absence of harmonised standards** and definitions for ESG debt instruments further complicates this.
4. Cost: Balancing the **costs of enhanced ESG compliance** with potential benefits is crucial. For instance, additional fees may be incurred to access ESG data alongside existing data flows.
5. Technology and Data Management: Implementing costly and complex technology for ESG data management is a challenge. There is no **digital tagging of ESG** data **for private companies not subject to CSRD or less regulated**. Updating systems to integrate diverse data sets is both costly and complex.

Indirect Investment

1. Comparability and Consistency: Challenges arise in finding **common indicators** due to funds/instruments' ESG data being tailored as per each jurisdiction's specificities and investment policy.
2. Aggregation: The diversity of asset management practices results in aggregating data that may not always be **comparable**.
3. Availability and Accessibility/Fast-moving and Demanding regulation: Data requirements vary depending on the framework and objectives of the invested instrument, leading to partial disclosure adoption and availability across the spectrum.
4. Reliability and Liability: Data availability often stems from differing **approaches, sources, and governance** principles, impacting reliability and liability.
5. Cost: Data availability is often **fragmented** and seldom centralised (e.g., holdings). Multiple parties are involved, and **manual processes** are needed to obtain and refine data. New data platforms are frequently required, necessitating additional skills.

4. Recommendations

After assessing the challenges associated with each asset class, the working group recommended a series of best practices, and guidelines to address these difficulties. Specifically, the members developed for financial professionals, both a set of recommendations to counter the different challenges linked to ESG data by asset class[7], as well as key questions to be asked when dealing with data providers. The working group also provided suggestions for policymakers and the LSFI itself stemming from the whole analysis.

4.1. Recommendations for financial professionals as per asset class

The section below outlines the recommendations of the working group to address the complexities, including several examples and best-practices[8].

Private Assets

- Availability and Accessibility: **Engage with portfolio companies**, particularly in private equity, where ownership can influence the reporting process. Include data requirements in contractual deal documentation whenever feasible. Initiate discussions on data requirements early in the diligence stage, leveraging existing templates like[9] UNPRI PC PE ESG Factor Map[10], ESG Data Convergence Initiative templates[11] or Invest Europe GP-LP ESG reporting template[12].
- Relevance: Establish a **transparent internal framework** within financial institutions to evaluate key relevant information. Engage with portfolio companies to ensure consistency in disclosure approaches regarding calculations and assessment of key metrics across the different assets.
- Reliability and Liability: Continuously evaluate key relevant information and maintain consistency in the calculation and assessment of key metrics across private companies. Financial institutions are the stakeholders of the target company and know the company, therefore, they need to establish a check and control procedure. This will subsequently enable to perform an internal validity check, ensuring the reliability of the raw data and fulfilling any reporting obligations to the LPs. In addition, financial institutions should strive for ongoing disclosure improvements and also **encourage third-party assurance** by consulting with fund auditors for validation during the regular audit cycles.
- Comparability and Consistency: Leverage existing standards, for instance, **utilise established standards** such as the UNPRI Factor Map[13], ESG Data Convergence Initiative templates[14], or Invest Europe GP-LP ESG reporting template[15], and promote their adoption. Financial institutions should review and compare methodologies to ensure consistency across received data.
- Fast-Moving and Demanding Regulation: Establish robust internal frameworks to meet stringent criteria. Financial institutions should invest in the right resources, including technical expertise and technologies, to remain updated with developments and

[7] The recommendations are not constrained to the top5 challenges per asset classes and may address any of the identified challenges.
[8] In particular cases, the recommendations might not refer only to the above-mentioned challenges (Chapter 3) but be more extensive.
[9] Non-exhaustive list.
[10] https://www.unpri.org/private-debt/the-pc-pe-esg-factor-map/10173.article
[11] https://www.esgdc.org
[12] https://www.investeurope.eu
[13] https://www.unpri.org/private-debt/the-pc-pe-esg-factor-map/10173.article
[14] https://www.esgdc.org
[15] https://www.investeurope.eu

engage with portfolio companies accordingly. Likewise, financial institutions should ensure portfolio companies align with them on a regular basis.

- Cost: Include ESG reporting and data acquisition expenses in fund expenses through Limited Partnership Agreement (LPA) negotiations. Explore potential cost synergies between General Partners (GPs) and portfolio companies by utilising technology platforms and leveraging support from s sustainability resources (when available).

Listed

- All challenges: Attribute **clear roles and responsibilities** within the personnel when it comes to ESG and data management. This is particularly crucial considering the mentioned **fast-moving and demanding regulation**.
- Reliability and Liability: Conduct a thorough initial due diligence of the data provider(s) and ongoing monitoring. This process will enable to assess the reliability and quality of the data, its compliance with relevant regulations (particularly those concerning data privacy and security), and the suitability and relevance of the provided data. Additionally, this initial evaluation will help determine if the associated costs are worth the expenses. When reliance is placed on third-party assured data, assess the assurance standards under which the verification was conducted and ensure that the assurance report does not include any limitations/qualifications.
- Comparability and Consistency: Resort to **multiple data providers** to allow comparison (if cost allows). This practice favors a more comprehensive coverage as well as adaptability; companies with multiple providers can draw from diverse data sources as their focus or needs change over time without being tied to a single one.
- Transparency: Require clarity on whether the acquired data is **raw** and if not when and how it has been **aggregated** and **manipulated** to report transparent and reliable KPIs.
- Technology and Data management: Build a precise **data architecture** by centralising data, establishing a clear audit trail, track record and golden source. Such a structure entails multiple benefits, ranging from improved decision-making to better risk mitigation and data quality, as well as enhanced data security.
- Fast-Moving and Demanding Regulation: gear up with **robust data capabilities** to sustain evolutions (new data points, new data sets, new aggregations) and stay up to date with the data offer.

Debt

- Availability and Accessibility: Engage with companies, especially the smaller actors not subject to strict disclosure requirements, through dedicated or harmonised questionnaires to collect ESG data. National initiatives are emerging to mutualise efforts to collect ESG data from private companies, in particular Small and Medium Enterprises (SMEs).
- Transparency: Evaluate various reporting frameworks and ESG data providers to identify solutions, sources of ESG data, and platforms that ensure the neutrality, trustworthiness, and transparency of sustainability information and methodologies.
- Reliability and Liability: Prepare for third-party audit, certification, or assurance of ESG data reported by borrowers by training relevant staff, including control functions. This will enable to validate the data collected and check consistent data quality across the data gathering process.
- Cost: Leverage public data sources when available to complete your ESG data set with publicly available data per geographies or sectors (e.g., use national buildings register to access information about the energy performance of financed buildings).

- Technology and Data Management: Assess potential partnerships and collaboration with fintech companies, scientific experts or academics to identify solutions to assess ESG data or calculate estimates/proxies.

Indirect Investment

- Comparability and Consistency / Aggregation: Have your portfolio's objectives fit into an established framework (e.g., SFDR). Set up an **acquisition and aggregation model** that secures consistency on data considered as comparable. This can be achieved through relying on data reported by the underlying fund/instrument (such as bespoke/direct reporting, SFDR templates of EET) or by performing a look-through (obtaining portfolio details and applying own ESG data sets). In the case of look-through approach, challenges and recommendations are comparable to other asset classes and we recommend readers refer to the listed category. Secure the availability of data at the desired frequency and in the applicable universe. Keep up with and contribute to ESG data processing market practices.
- Availability and Accessibility / Fast-moving and Demanding regulation: **focus on the ESG objectives** of your product to contain the risk of divergence in time with the underlying instruments.
- Reliability and Liability: Ensure consistency of your own data and methodology across your organisation: **architecture and data practices, governance and data quality.**
- Cost: Seek **synergies in acquiring and maintaining** ESG data from aggregators (such as EET aggregators) while being cautious of not encouraging data monopolies.

4.2. Questions to be posed by financial professionals to data providers

When selecting ESG data providers, financial professionals balance the comfort of selecting a single data provider covering a large range of information and the increased reliability induced by selecting specialised providers for certain sets of data and/or multiple data sources.

Fast-moving regulation and sector innovation imply continuous demand for new data sets (such as transition or biodiversity data) and data-gathering processes. Financial institutions shall monitor these evolutions, ensuring their own data monitoring processes and connection with data providers are sufficiently adaptive. For instance, the emergence of AI to gather ESG data is expected to increase efficiency in the process, whilst triggering questions on process monitoring and audit trail availability.

Financial institutions shall implement data quality processes on the ESG data they use, regardless of whether these data are acquired directly from the investee companies, external databases or acquired from data providers. However, services offered by data providers may vary quite significantly from one to the other, as well as the sources of data and data quality processes implemented. Financial market participants need to understand the scope of data, processes to acquire/control it, and methodologies for estimating data or calculating ratios. This is necessary not only in the selection process but also in implementing their own data quality controls.

Because of that, and in line with the second objective of the working group, the members developed a questionnaire highlighting key questions to be asked by financial professionals to data providers to better understand the type of ESG data they are using and increase their reliability. These questions can also help assess the scope and reliability of the ESG data provided by a data provider.

The questionnaire was elaborated through (sub)working group brainstorming leveraging on the discussion the members had with data providers.

The questionnaire can be found below, questions are divided by the main topic addressed.

1. **Data quality review:**
    - What is the data validation process?
    - What type of **data quality review** are implemented and at what **frequency** are these reviews carried out?
    - What **time horizon** does it cover?
    - Do you assess the quality of the reported data that you collect?
    - What is the process if the data reported is not plausible?
2. **Time horizon:**
    - How often do you update the data? (e.g., ad-hoc, daily, weekly, quarterly, annually)
    - What **time horizon** does it cover?
    - How frequently is the data updated with regards to regulation updates?
3. **Data scope and coverage:**
    - Do you cover public and private companies of all sizes?
    - Which asset classes, sectors, and geographies do you cover?
    - Which data points do you cover (E, S, G)?
    - How do you go about deciding the coverage of data? Do you follow standard indexes? Do you look at the size of the company? Revenue?
    - Is there any specific threshold/methodology/standard you seek to base your data on?
    - Can you provide an example of data for companies XYZ/ABC?
    - Do you provide group structures?
4. **Data sources/type of data:**
    - What are the sources of ESG data you rely on (e.g., CSR reports, public information, articles, news, and company information)?
    - Do you provide forward-looking data?
    - Do you provide an estimate? If so, what is the process/methodology? Do you test/evaluate your estimated data/estimation models for accuracy when actual data is provided?
    - How much % of the data provided is estimated vs reported?
    - Do you provide access to group/individual companies' data?
5. **Audit trail/metadata:**
    - Do you provide an audit trail for the data provided (source of the information, report, documents, articles)?
    - What is the metadata provided?
    - Do you indicate if the data is reported by the company or estimated? If the data has been audited?
6. **Products and services:**
    - Do you provide scoring/ratings?
    - Do you provide ESG analysis and/or ESG market insights?
    - Do you provide comparison/benchmark features?
    - Do you provide PAIs? Taxonomy-alignment?

7. **Methodologies:**
    - Do you have expert-driven research?
    - Do you use AI and/or machine-learning techniques? If so, for which purposes and type of data? How has the model been tested? What is the impact on the audit trail?
    - Do you have a methodology document/definition of KPIs – and has the methodology been audited?

8. **Data management:**
    - What are your **processes, procedures, and methodologies** for data management?
    - What would be the required internal resources to manage the data?
    - Who maintains the platform?
    - For how long are the data kept?
    - What is the process when a company corrects/modifies the data?

9. **Interaction**
    - What if I disagree with a data point?
    - How can I raise a question on the data? What is the process?

10. **Data delivery structure:**
    - How do you deliver the data (e.g., API/SFTP/Platforms such as Aladdin and Factset)?
    - How are companies identified (e.g., LEI, ISIN,…)?
    - Do you take into account corporate entity mapping the relationships between issuances, issuers, and parent entities when looking at ESG considerations?
    - Do you deliver data at the company individual/parent level and/or at group level?

11. **Pricing structure?**
    - What is your pricing structure?
    - Do you charge extra for reporting and referencing?
    - In case regulation requires more data, would it be included, or would it be additional costs?

12. **Term of usage/ redistribution:**
    - Are there limitations to the usage or redistribution of data?
        - Licensing Requirements: Are there any additional licenses required for the usage or redistribution of the ESG data beyond the initial contract?
        - Public Display Permissions: Can the ESG data be displayed publicly on websites or reports, or is it restricted to internal use only?
        - Data Usage Limitations: Are there any specific limitations on how the ESG data can be used within the organisation, such as restrictions on data modification or integration with other datasets?

13. **Interoperability of the data:**
    - To which extent are the data interoperable?

14. **Contract agreement exit**
    - What are the exit conditions?
    - Under which conditions can the data be kept after contract termination?

- How far is derived data[16] subject to these terms?

15. Other services:

- Are there any additional services? If so, what are their costs?

4.3. Additional sources of ESG Data

ESG data acquisition from data providers is not the only solution to obtain ESG information. Information can be obtained directly from the investee company or from specialised databases. In fact, obtaining information directly from the underlying companies/assets is a standard practice in the private assets sector. Financial market professionals might consider the above-mentioned challenges when drafting the information request questionnaire.

Many databases provide (free) non-financial, including physical data. The LSFI Take Action – Instruments[17] toolkit provides a comprehensive inventory of data sources. The working group encourages financial professional regular consultation of the Take Action Toolkit of the LSFI website. Please note that the referencing of any initiative on the LSFI Take Action toolkit does not imply any endorsement as no due diligence was performed on these instruments.

4.4. Foreseen future sources of data

- ESAP: From 2027, this database will offer direct access to (structured) information (financial and non-financial) on European companies and products. The working group welcomes this initiative and hopes that it will be implemented without delays.
- The revised Energy Performance for Buildings Directive (EPBD IV): this Directive introduces a requirement for Member States to setup a national database for energy performance of buildings which allows data to be gathered on the energy performance of individual buildings and the overall energy performance of the national building stock. Such information shall be made available amongst others to financial institutions as regards the buildings in their investment and lending portfolios, upon certain conditions set in the Directive.
- EuroDat platform: this platform, operated by the European Data Trustee EuroDat founded by the German Federal Ministry of Economics and Climate Protection, is developing a project that aims to allow financial institutions to share their sustainability assessment of companies and ultimately build a strong market representation of the ESG performance of such companies.
- Earth observation solutions: these solutions provide useful geospatial intelligence data, including forward looking data such as wildfire prediction and monitoring, or urban heat mapping. Those data might be useful for financial institutions from an ESG risks management perspective. The working group recommends financial professionals to take a closer look at them.

4.5. Other considerations for policymakers

- ESAP
  As mentioned above, the ESAP initiative is expected to be a game changer, offering direct access to ESG data for European companies. We therefore strongly encourage implementation without delays, prioritising digital access to structured data.

- Non-financial reporting standards

[16] Data resulting from the processing of the data acquired from the provider.
[17] Access the LSFI Take Action Instruments Toolkit

Diversity of reporting methodologies leads to comparability, consistency, and transparency issues. In that context, we welcome the development of ESRS, and the interoperability work conducted with the ISSB. We encourage policymakers to pursue efforts in developing global reporting standards as well as alignment of underlying measurement methodologies.

- Non-financial reporting support and incentives
  Implementing ESRS will be a challenging exercise for companies of all sizes and, more particularly, for the smaller ones. We encourage policy makers to support companies in this effort, through the form of free technical resources and training, for instance. Financial support could also be envisaged for smaller companies voluntarily reporting.

- Assurance on non-financial information
  Third-party assurance may enhance the reliability of non-financial information. In that context, we encourage to require high level of assurance, over the data reported (not limited to reporting process). ESG data may result from complex measurement or estimation (for data that cannot be measured by the company). Therefore, we recommend specialised training, qualification and quality standards process to be imposed on those providing third-party assurance on non-financial information.

- ESG data providers
  The current regulation proposal focuses on ESG rating methodologies. We recommend requiring comparable transparency over ESG raw data.

4.6. Recommendations for the LSFI

- We recommend that LSFI continue its efforts in referencing data sources and non-commercial tools and enhance the promotion of its valuable online Take Action Toolkit[18].
- ESRS is a complex and moving reporting standard – we suggest organising a Masterclass or webinar to raise awareness to financial players on how to use non-financial reporting. We also suggest considering developing in collaboration with training providers or promoting the development of trainings regarding how to leverage non-financial reporting information, dedicated to **users** of ESG information.

[18] Access the LSFI Take Action Instruments Toolkit.

5. Annexe

I. Data requirements under Sustainable Finance regulations

The sustainable finance regulations have mandated extended use of ESG data across the financial sector, ranging from mandatory risk management to sustainable products reporting[19].

Risk management

Several regulations (UCITS, AIFM, MiFID, IDD, Solvency2) require the monitoring of material ESG risks. Assessing whether an ESG matter may materialise into a material financial risk require ESG data. When a risk has been identified as potentially material, further data is required for monitoring the risk.

PAI reporting

Principal Adverse Impact (PAI) indicators are (negative) impact indicators mandated by SFDR. Large financial market participants are required to disclose annually PAI across for all the assets they manage. They shall report on the mandatory PAI and on some additional PAI. Calculation shall be done on a quarterly basis. Annual report shall cover calendar year and be file by June 30. When assets are managed indirectly, PAI's shall obtain the information from the underlying products. The EET can be leveraged for this purpose. Incomplete data coverage (not all companies report on all PAIs) and disparity in calculation reporting are challenges faced by market participants.

CSRD

CSRD (Corporate Sustainability Directive) replaces NFRD (non-financial reporting directive). ESRS mandate the content of the CRS report. PAI indicators as well as Taxonomy alignment are part of the required contents, as well as climate approach. Companies reporting under ESRS are expected to largely comply with the ISSB – but companies reporting under ISSB do not comply with ESRS as the ESRS scope is larger (it goes beyond the climate reporting). Refer to EFRAG/ISSB interoperability work for more information.

Reporting under CRSD is subject to double materiality concept: companies, including financial institutions, shall report sustainability matters information whenever these matters could have a material financial impact on the company or whenever the company has a material impact on the sustainability matters.

Reports prepared under ESRS will be a key source of ESG data on European companies. Financial institutions shall therefore benefit from the extended scope of reporting (all large entities and listed SME's), alignment with SFDR data requirements, mandatory verification and electronic reporting format.

These reports will be available from 2025 (very large listed entities), 2026 (large entities), 2027 (listed SME's) and 2029 (non-EU parent companies with significant activities in EU.

Taxonomy alignment

Companies required to report under NFRD/CSRD shall disclose to which extent their activities are aligned with the Taxonomy. Taxonomy alignment calculation is to be based on turnover, capex and opex. Whilst the turnover generally provides information as to how the actual commercial activities are aligned with the Taxonomy, the capex alignment information provides information on the sustainability efforts and investment towards sustainability. Taxonomy

[19] https://www.efrag.org/News/Public-515/IFRS-Foundation-and-EFRAG-publish-interoperability-guidance?AspxAutoDetectCookieSupport=1

alignment calculations for the financial sector requires information on Taxonomy alignment of portfolio managed and financial institutions customers.

Financial products

Financial products with sustainability objectives or environmental or social characteristics shall disclose annually how they achieved their sustainability ambitions, using the relevant KPI or impact measurement as foreseen in their offering documents.

Products with environmental characteristics or objectives shall report on their Taxonomy alignment.

PAI disclosure is optional, but sustainable products shall consider mandatory PAIs as part of the Do Not Significant Harm (DNSH) test applied to their sustainable investments.

Transition and forward-looking information

Sustainability is a journey rather than an inherent characteristic or a status quo. It is forward-looking rather than looking at the past, The EU recommendation on transition finance published in 2023 recognise the importance of financing the just transition towards a more sustainable economy and provide guidance as to how define transition finance (transition plan, science-based target, taxonomy alignment (capex)…).

Past sustainability data (i.e. indicators as of the date of the last sustainable report) are not anymore sufficient and forward-looking data such as scenario analysis, transition plan and science-based target shall be part of the universe of ESG data reported and monitored.

II. Key definitions and acronyms

CSRD

The Corporate Sustainability Reporting Directive (Directive (EU) 2022/2464) is an EU regulation that requires companies to report on the impact of their environmental and social activities regularly. Its purpose is to amend and strengthen the requirements of the NFRD (Directive 2013/34/EU).

EET

The European ESG Template is a voluntary template FinDatEx created to harmonise ESG-related data disclosures on financial products and make them more transparent. It may act as an ESG data source of information for indirect investment.

ESAP

The European Single Access Point aims to provide access to centralised public information about companies and investment products at EU level in relation to capital markets, financial services, and sustainable finance.

ESG raw data

ESG raw data are ESG datapoints, used to calculate ESG indicators (such as PAI), ratios (such Taxonomy alignment percentage) or assessment (such as ESG scoring or ratings).

ESG raw data can either be measured or estimated. Estimation may be performed by the company itself (scope 3 emissions for instance are usually estimated by the reporting entity), data providers or users of the information.

ESG rating[20]

ESG rating means an opinion, a score or a combination of both, regarding a rated item's profile or characteristics with regard to environmental, social and human rights, or governance factors or exposure to risks or the impact on environmental, social and human rights, or governance factors,

This report does not focus on ESG ratings but on the underlying raw data that are being used as input to ESG scoring, assessment or ratings.

ESRS

The European Sustainability Reporting Standards are the standards that set out concrete rules (such as structured templates) for mandatory CSRD disclosures. First set of standards have been released under Regulation (EU) 2022/2772.

GRI

The Global Reporting Initiative is an independent, international organisation that helps businesses and other organisations take responsibility for their impacts, by providing them with the global common language to communicate those impacts.

ISSB

The International Sustainability Standards Board is an independent, private-sector body that develops and approves IFRS Sustainability Disclosure Standards (IFRS SDS). The ISSB operates under the oversight of the IFRS Foundation.

PAI

A Principal Adverse Impact is a negative effect an investment could have on sustainability-related matters (which include climate change, human rights, and anti-corruption issues).

SMEs

Small and Medium Enterprises are defined as companies that comply with two conditions: first, having less than 250 staff headcounts and, second, having a turnover smaller or equal to €50 million or a balance sheet total smaller or equal to €43 million.

III. Sustainability assurance standards

When assurance is provided by an external auditor, subject to IAASB standards, the report is usually issued under ISAE 3000 standard. This standard foresees 2 levels of assurance opinion, reasonable and limited assurance. Under a limited assurance opinion mandate, the auditor will perform less work and the level of assurance provided will therefore be lower than for a reasonable assurance opinion.

The IAASB is currently working on a new standard, ISSA 5000, aimed at being profession agnostic, available to use by both professional accountants and non-accountant assurance practitioners.

[20] Source: Proposal for a Regulation of the European Regulation and the Council on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities, and amending Regulation (EU) 2019/2088

In parallel, CSRD foresees that the European Commission will adopt limited assurance standards by October 2026. Reasonable assurance standards might be considered at a later stage.

When reviewing a sustainability assurance report, users shall consider the following aspects:

- Scope of the assurance: is the assurance provided on the reporting process, compliance with the reporting framework or the actual outcome (=ESG data/indicators)?
- Level of assurance provided: reasonable or limited?
- Does the assurance include any limitations/qualifications?

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