Recommendation for financial professionals when dealing with ESG data

This document outlines recommendations per asset class issued by the LSFI Working Group on ESG Data for financial professionals to address the existing ESG Challenges

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 UNPRI PC PE ESG Factor Map, ESG Data Convergence Initiative templates or Invest Europe GP-LP ESG reporting template.
- 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, ESG Data Convergence Initiative templates, or Invest Europe GP-LP ESG reporting template, 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 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 centralizing 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 organization: **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.