

Global Economic Policy Lab

Comparing Environmental, Social, and Governance Ratings Across Stock Exchanges

Clean Energy Analysts

Philipp Bien
philipp.bien@mail.utoronto.ca

Saad Iqbal
saad.iqbal@mail.utoronto.ca

Amy Li
amyq.li@mail.utoronto.ca

Ian Stecher
ian.stecher@mail.utoronto.ca

Lab Director
Professor Mark Manger
mark.manger@utoronto.ca



munk school
OF GLOBAL AFFAIRS & PUBLIC POLICY



UNIVERSITY OF
TORONTO

- The proportion of S&P 500 firms releasing environmental, social, and governance performance data rose 70% between 2011 and 2019; and as of 2018 more than 600 ESG ratings systems are available globally
- Significant heterogeneity exists between ESG ratings providers, with our research finding almost no correlation or uniformity between Sustainalytics, MSCI, Refinitiv, and S&P Global ESG ratings across four of the world's largest stock exchanges
- The ESG ratings provider an investor uses to guide their sustainable investment decisions can significantly impact portfolio compositions and returns - with our research finding 5-year yields ranging from 289.71% to 53.46% based on the ESG ratings provider chosen
- There is a distinct need for the establishment of uniform ESG metrics and an international sustainability reporting standards authority to improve the reliability, transparency, and comparability of available ESG data

Background

The Growth in Sustainable Investing

Sustainable investing, often used as a synonym for responsible investing, impact investing, or social investing, is a newer investment thesis that is quickly gaining traction across both the public and private sectors. It [refers to investment strategies](#) that consider environmental, social, and governance (ESG) issues as part of the comprehensive investment decision-making process. Specifically, investors utilising these strategies target companies and projects with sustainable and transparent ESG performance.

As of the beginning of 2018, the total value of global assets under management with an explicit ESG mandate [reached USD\\$30.7T, a 34% increase relative to 2016](#). Investment strategies that explicitly incorporate ESG criteria now represent a significant proportion of all professionally managed assets [across the U.S.A., E.U., U.K., Japan, Australia, and New Zealand](#). The growth of this investment type has also been notable in Canada. A [2020 report by the Responsible Investment Association of Canada](#) found that sustainable investing grew in Canada from CAD\$2.1T in 2017 to CAD\$3.2T by 2019. Further, the Global Impact Investing Network presented a [report in 2020](#) detailing how impact investing will continue to grow in the wake of the pandemic as investors focus on establishing more sustainable, resilient portfolios.

This rapid growth has largely been driven by the actions of various institutional investors in the space. Blackrock [committed to net-zero investing by 2050](#), and recently completed its [goal of ESG integrating 100% of its active portfolios](#). The OTPP similarly [committed to net-zero investing by 2050](#), and the New York State Pension Fund set an even more ambitious [target of achieving net-zero investing by 2040](#). Finally, a coalition of 30 leading global asset managers recently announced the [Net Zero Asset Managers Initiative](#) - pledging to align USD\$9T of managed assets with net-zero targets by 2050 or sooner.

Government's around the world have also been active participants in this growth. The [Government of Canada's 2019 Expert Panel on Sustainable Finance](#) outlined the growth opportunities for sustainable investing in Canada, how the government could support this growth, and, in turn, how this investment sector can support Canada's economy. In a similar

move, the U.K. Government recently launched the [Impact Investing Institute](#) to unite their previous impact investing programs and facilitate the sector's growth and accessibility. The U.S. Federal Government operates various programs and funds in the sustainable investing space, such as the [Social Innovation Fund](#), [Community Development Financial Institutions Fund](#), and the [Community Reinvestment Act](#). Regional governments have also engaged in various initiatives in this sector, such as the [Mayor's Energy Efficiency Fund](#) in London, U.K. and the [Connecticut Green Bank](#).

These commitments and initiatives, spanning both the public and private sectors indicate that sustainable investing is the new long-term focus for many investment managers. This has resulted in the rapid development and expansion of metrics to help investors evaluate ESG performance when making investment decisions.

The Explosion in ESG Ratings

As sustainable investing has grown, and with it the need for better data to facilitate these investments, there has been an explosion in the number of available ESG rating systems. The proportion of S&P 500 firms releasing ESG performance data rose from 20% in 2011 to 90% in 2019. The scope and contents of these reports also dramatically increased according to the [Governance and Accountability Institute](#). As of 2018, [there were more than 600 ESG rating and ranking systems globally](#). This rapid growth in ESG data and reporting, combined with investor appetite for sustainability-influenced corporate reporting and disclosure, led to the creation of ESG-focused investment products. Ultimately, these ESG reporting metrics have had a large impact on the public perception surrounding corporate objectives and performance.

Exploring ESG Literature: Are all ESG rating systems made equal?

ESG rating providers began surfacing as a response to the surge in interest in socially responsible investing that began to garner attention in the 1980s, but the growth of the industry has picked up significant speed in the past two decades. Since then, many ESG rating providers have emerged and the industry has gone through a lengthy merger and acquisition process which has led to the development of [various large, professionalized companies in the space](#). Despite this, a collection of different providers remain that apply different ratings using a wide array of variables - which has [caused significant concern](#) amongst both companies and investors.

This is significant, as ESG ratings and rankings [guide and inform sustainable investment decisions](#), yet the methodologies, data points, and scopes used to inform these ratings [vary greatly by provider](#). As a result, the ESG ratings and investment landscape is highly heterogeneous. Though the frequency with which they are being used to evaluate companies is increasing, inconsistent methodologies [result in dramatically different investment portfolios](#) depending on which ESG provider investors use to guide their decisions.

These differences are a direct result of investors and asset managers [defining ESG very differently and attaching varying weights](#) to the elements that compose it. Lacking a single standard, company ratings are difficult to compare and companies struggle to provide the scope and depth of required data to ratings providers in a standardized format. This has led to increasing calls for the standardization of rating systems or, at the least, of the [underlying variables that are used to construct the ratings](#). While some mainstream investors have noted that that range of available ratings is positive for the sector, as it provides a wider variety of data and ESG analysis, the majority of investors have expressed a [desire for better and more transparent data](#).

We explore how ESG providers evaluate publicly traded companies across four of the world's largest stock exchanges. Specifically, we detail the variance between corporate ESG ratings and provide an analysis of how an investor's choice of ESG rating provider can significantly impact the yield of their sustainable investment. This is critical to understand whether objective performance measures or contrasting methodologies guide sustainable investments and their returns.

Comparing ESG Ratings Around the World

The Stock Exchanges

We analyse the ESG ratings of the 50 largest companies, by market capitalization, listed on the Toronto Stock Exchange (TSX), New York Stock Exchange (NYSE), Nasdaq Stock Market (NASDAQ), and the London Stock Exchange (LSE). We selected these exchanges because of their size, the strong connections their host countries have to sustainable investing, and the availability of a wide variety of ESG metrics for the companies listed on them.

ESG Ratings Providers

Our analysis examines ESG ratings published by broadly applicable and available providers. A [report by Research Affiliates](#) classified ESG providers as either being fundamental, specialist, or comprehensive. We focus on four prominent providers of comprehensive ESG ratings: [Sustainalytics](#), [MSCI](#), [Refinitiv](#), and [S&P Global](#).

Provider	Coverage	Scale	Methodology	Data Sources
Sustainalytics	6,500 companies	Risk Score ranging from 0 to > 40+ 0 to 10: Negligible risk 10 to 20: Low risk 20 to 30: Medium risk 30 to 40: High risk >40: Severe risk	Key ESG issues split into 3 themes (environmental, social & governance) Set of analyzed issues varies by industry At least 70 indicators in each industry Split into 3 categories: <i>preparedness, disclosure and performance</i>	CO2 emissions Company Reporting Third Party Research Government databases Company disclosures
MSCI	6,000 companies & 400,000 equity & fixed income securities	AAA-CCC Scale: CCC,B: Laggard BBB, BBB, A: Average AA, AAA: Leader	37 ESG key issues, divided into 3 pillars (environmental, social, governance) and 10 themes: Climate change, natural resources, pollution & waste, environmental opportunities, human capital, product liability, stakeholder opposition, social opportunities, corporate governance, corporate behavior	Macro data at segment or geographical level from academic, government and NGO databases
Refinitiv	9,000 companies	Point Score out of 100 across 4 quartiles: 0-25 Poor 25-50 Satisfactory 50-75 Good 75-100 Excellent	More than 500 ESG metrics across 10 main themes: emissions, environmental production innovation, resource use, workforce, human rights, community, product responsibility, management, stakeholders, CSR strategy	Annual Reports, Company Websites, NGO Websites, Stock Exchange filings, CSR reports, News Sources
S&P Global	7,300 companies	Point Score out of 100 across 4 quartiles: 0-25 Poor 25-50 Satisfactory 50-75 Good 75-100 Excellent	Weighted Criteria Score for each of 3 criteria (social, environmental & governance) resulting from 1,000 data points from assessed values, text, checkboxes, documents	Survey Questions: 100-question exploration guided by 61 industry-specific approaches for each criteria score Publicly Available Data

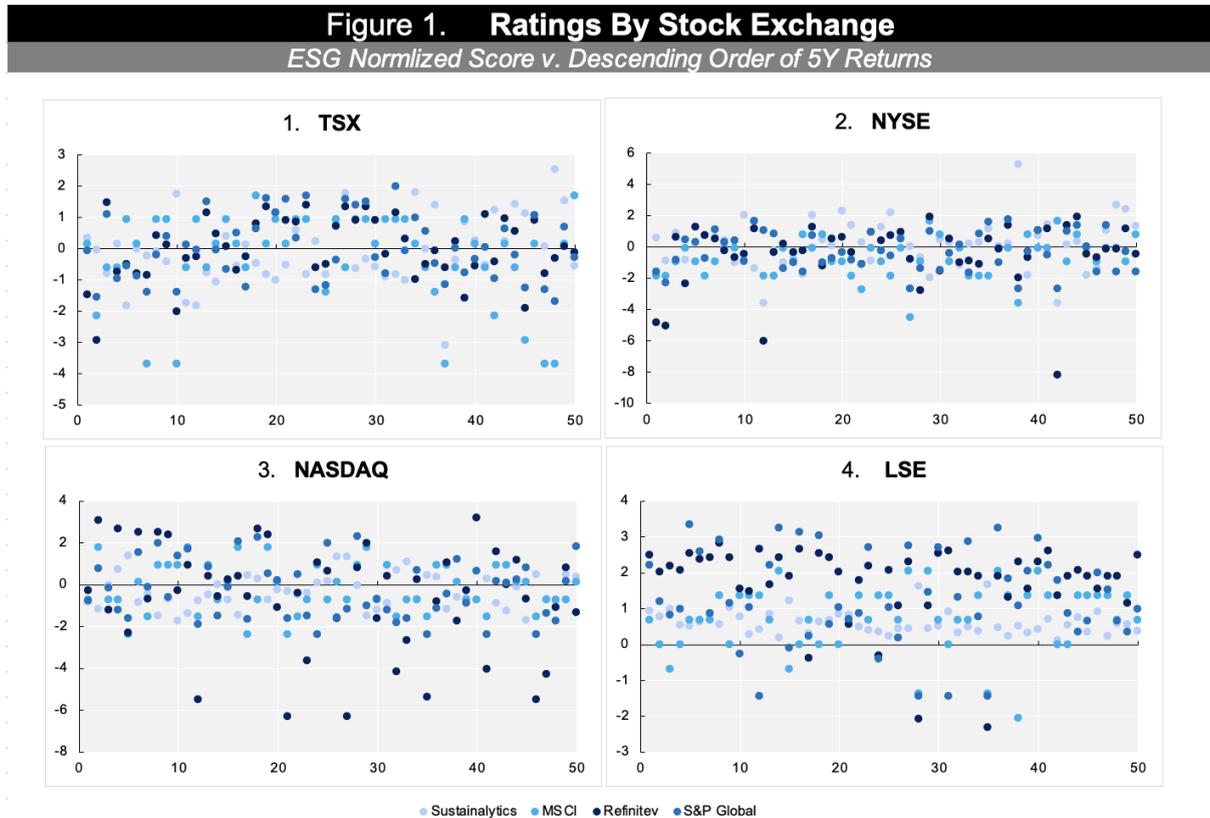
Analysis

Summary Statistics

Exchange		Sustainalytics	MSCI	Refinitiv	S&P Global
All (200)	Mean	23.5	4.8	68.4	46.7
	Standard Dev	7.9	1.3	18.3	22.9
	Min	9.4	1.0	6.0	3.0
	Max	55.6	7.0	94.0	89.0
	Spread	46.2	6	88	86
	<i>Normalized</i>				
	Min	-3.63	-4.51	-8.19	-2.69
	Max	5.27	2.05	3.19	3.34
	Spread	8.89	6.56	11.38	6.03
TSX	Mean	23.1	4.8	60.3	40.2
	Standard Dev	7.4	1.3	16.4	23.6
	Min	9.4	1	12	3
	Max	41.7	7	84	87
	Spread	32.3	6	72	84
	<i>Normalized</i>				
	Min	-3.11	-2.94	-2.95	-1.58
	Max	2.51	1.68	1.45	1.99
	Spread	5.63	4.62	4.40	3.56
NYSE	Mean	22.7	5.1	76.3	53.9
	Standard Dev	6.3	1.1	9.3	20.0
	Min	10.2	3	29	8
	Max	42.6	7	94	87
	Spread	32.4	4	65	79
	<i>Normalized</i>				
	Min	-3.63	-4.51	-8.19	-2.69
	Max	5.27	1.65	1.90	1.75
	Spread	8.89	6.16	10.09	4.44
NASDAQ	Mean	22.5	4.9	69.1	43.4
	Standard Dev	6.7	1.2	7.5	18.1
	Min	10.9	2.0	59.0	12
	Max	39.4	7.0	89.0	89
	Spread	28.5	5	30	77
	<i>Normalized</i>				
	Min	-1.74	-2.39	-6.30	-2.39
	Max	1.37	1.76	3.19	2.29
	Spread	3.11	4.15	9.48	4.69
LSE	Mean	10.5	4.0	45.6	26.8
	Standard Dev	26.5	1.5	17.1	18.6
	Min	26.2	4.0	6.0	3.0
	Max	26.2	4.0	88.0	75.0
	Spread	32.3	6	82.0	72.0
	<i>Normalized</i>				
	Min	0.10	-2.05	-2.31	-1.44
	Max	1.66	2.05	2.83	3.34
	Spread	1.56	4.10	5.14	4.78

Source: providers listed, GEPL calculations

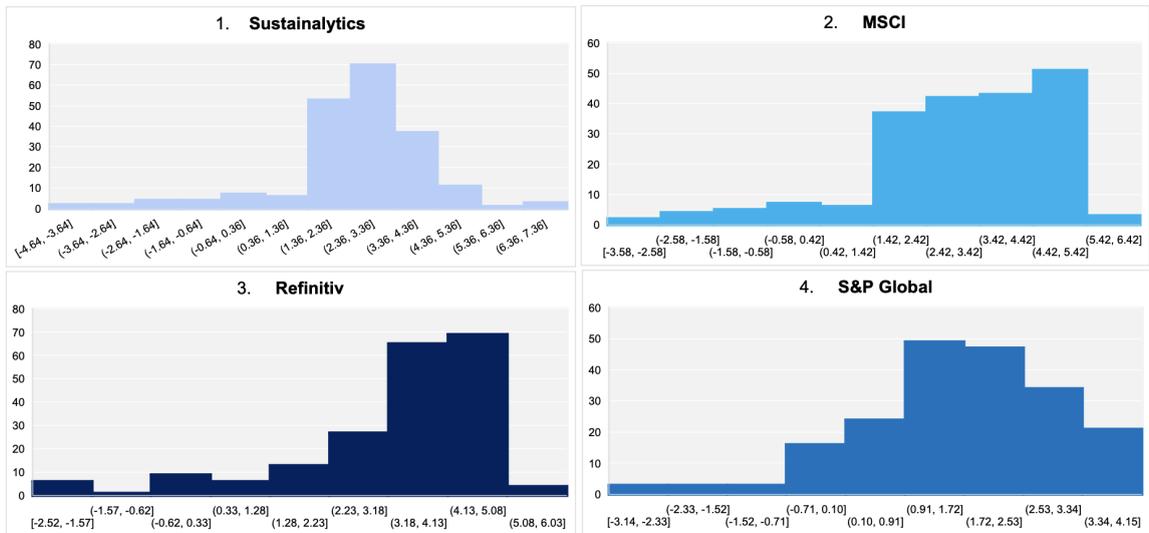
Unsurprisingly, the spread in raw score ratings is sizable but is not indicative of the true variance between each company's ratings. Inconsistent ratings methodologies make any attempt to compare the ratings imprecise. As a result, in Table 2, we calculated z-scores to normalize and compare our findings. This facilitated more detailed analysis. Readers should note that we converted MSCI's alphabetical scale to a 7-point range to perform these calculations. We then illustrated the spread of the normalized ratings in Figure 1.



Source: providers listed, GEPL calculations

In the scatter plots displayed in Figure 1, we can see that companies listed on the NYSE are the most densely rated around the mean across all providers. The vertical axis shows normalized ESG scores, whereas the horizontal axis ranks the top scoring companies from left to right. The top returning companies, which can be found on the far left of the graph, are incidentally its poorest ESG performers. Upon closer inspection, these are primarily software giants. With the LSE, we can see that listed companies consistently receive ESG ratings above the mean. Meanwhile, several NASDAQ listed companies received ratings from Refinitiv exclusively that were several deviations away from the mean.

Figure 2. ESG Normalized Score Histograms



Source: providers listed, GEPL calculations

Figure 2 further organizes these normalized ratings in a series of histograms for the ratings from each provider. It is notable that each provider has a significant left skew, indicating that while they may not evaluate each company in the same manner, or display normal distributions, their overall ratings distributions are fairly consistent. It should be noted that S&P Global is the most equally distributed and Refinitiv has the most significant left-tail.

ESG Ratings by Industry

Table 3. Average ESG Rating by Industry

<i>Industry</i>	<i>Sustainalytics</i>	<i>MSCI</i>	<i>Refinitiv</i>	<i>S&P Global</i>
Aerospace	2.8	2.8	2.5	1.4
Automobiles	2.4	3.2	2.9	1.0
Bank	2.5	3.6	3.5	2.0
Banks	3.7	4.5	3.9	1.4
Beverages	2.6	4.1	4.0	2.5
Chemicals	3.7	3.3	2.6	2.5
Commercial Services	4.2	2.2	3.2	1.3
Construction	1.3	1.5	3.1	1.2
Electrical Equipment	3.7	4.5	1.9	1.0
Entertainment	2.8	3.3	3.5	1.6
Financial Services	3.8	2.5	3.3	1.6
Food Products	3.3	2.5	2.9	1.2
Healthcare	3.4	3.0	4.5	2.6
Hotel	2.1	3.7	3.8	2.7
Household Products	2.2	3.2	3.4	2.9
Industrial Conglomerate	2.7	3.9	4.1	1.6
Insurance	3.6	2.8	4.3	2.1
IT Services	2.6	3.1	3.9	1.5
Media	2.7	2.7	3.7	2.1
Mining	3.6	3.0	4.1	2.2
Oil & Gas	2.9	3.6	4.1	2.0
Pharmaceuticals	2.4	3.5	3.6	1.9
Precious Metals	3.1	4.1	3.3	1.6
Professional Services	2.4	3.2	3.0	0.9
Real Estate	3.0	3.0	3.3	1.5
Restaurants & Leisure	3.2	3.3	2.5	0.5
Retail	2.3	3.4	3.4	1.5
Semiconductors	3.7	3.4	4.5	2.6
Software	3.3	3.9	3.9	2.1
Telecommunications	3.2	3.6	3.9	2.2
Transportation	3.0	3.7	4.3	2.2
Utilities	3.0	4.2	4.2	2.0

Source: providers listed, GEPL calculations

Table 3 breaks down the average normalized ESG rating given to companies in specific industries by ratings provider. Several idiosyncrasies become immediately apparent. Electrical equipment companies in our sample receive notably high ESG ratings from MSCI and Sustainalytics, while Refinitiv and S&P Global typically score the same companies much lower. Similarly, banks are scored highly by Sustainalytics, MSCI, and Refinitiv, but much lower by S&P Global. In fact, S&P Global provides the lowest average ESG scores across all industries in our sample. On the other hand Refinitiv and, to a lesser extent, MSCI typically assign the highest ESG scores across industries.

However, we do see some agreement across ratings providers when looking at specific industries. All four providers give relatively high ratings to the healthcare, semiconductor, transportation, and insurance industries. Aerospace, media, real estate, and telecommunications are scored similarly by all providers. Finally, the construction industry fares poorly in its ratings across providers. It should also be noted that while individual companies scored below the mean, no industry received an average ESG rating below the mean from any of the four providers.

Correlation Between Ratings Providers

Table 4. Cross Correlation Matrices

		<i>Sustainalytics</i>	<i>MSCI</i>	<i>Refinitiv</i>	<i>S&P Global</i>
AII	<i>Sustainalytics</i>	1.00	-0.35	-0.02	-0.19
	<i>MSCI</i>		1.00	0.39	0.43
	<i>Refinitiv</i>			1.00	0.60
	<i>S&P Global</i>				1.00
TSX	<i>Sustainalytics</i>	1.00	0.02	-0.26	-0.20
	<i>MSCI</i>		1.00	0.42	0.40
	<i>Refinitiv</i>			1.00	0.75
	<i>S&P Global</i>				1.00
NYSE	<i>Sustainalytics</i>	1.00	-0.38	0.41	-0.11
	<i>MSCI</i>		1.00	0.13	0.28
	<i>Refinitiv</i>			1.00	0.48
	<i>S&P Global</i>				1.00
NASDAQ	<i>Sustainalytics</i>	1.00	-0.54	-0.40	-0.43
	<i>MSCI</i>		1.00	0.61	0.49
	<i>Refinitiv</i>			1.00	0.59
	<i>S&P Global</i>				1.00
LSE	<i>Sustainalytics</i>	1.00	-0.59	-0.40	-0.41
	<i>MSCI</i>		1.00	0.28	0.34
	<i>Refinitiv</i>			1.00	0.53
	<i>S&P Global</i>				1.00

Source: providers listed, GEPL calculations

To further our comparison between ESG raters across stock exchanges, we built cross-correlation matrices for the standardized scores of each ratings provider across the TSX, NYSE, NASDAQ, and LSE, shown above in Table 4. A score of 1 signals perfect positive correlation, -1 signals perfect negative correlation, and 0 signals no correlation.

Across the four exchanges, we see Refinitiv and S&P Global exhibiting the highest degree of correlation. Their ratings have the closest relationship on the TSX, with a coefficient of 0.75. MSCI also displays some correlation with Refinitiv and S&P Global, most notably on the NASDAQ, though this relationship is weak on the NYSE and the LSE. Sustainalytics uses a reverse ranking methodology so its negative correlation coefficients with other raters are to be expected. It is most closely correlated with MSCI on the LSE and NASDAQ, though the relationship is incredibly weak on the TSX. It should be noted that Refinitiv and S&P Global are the only two ratings providers with a significant correlation across all four exchanges, with a correlation coefficient of 0.6. Despite finding some evidence of weak correlation between ratings providers, these matrices confirm that, on the whole, there is very little agreement on how companies should be rated amongst ESG providers.

Portfolio Returns by ESG Ratings Providers

Table 5. 5Y Returns by ESG Ratings Provider				
ESG Rater	Exchange	Company	Industry	5Y Returns (%)
Sustainalytics	TSX	Wheaton Precious Metals	Precious Metals	132.95
	TSX	Franco-Nevada Corporation	Precious Metals	92.29
	TSX	Thomson Reuters Corporation	Professional Services	96.26
	NYSE	SAP SE	Software	63.93
	NASDAQ	Adobe Inc	Software	413.81
	NASDAQ	Illumina	Pharmaceuticals	128.70
	NYSE	Salesforce	Software	192.21
	NYSE	Accenture	IT Services	146.69
	NYSE	Home Depot Inc	Retail	130.32
	NASDAQ	Cisco Systems	Software	109.68
			<i>Average</i>	150.68
MSCI	NYSE	SAP SE	Software	63.93
	NASDAQ	Automatic Data Processing	Software	109.68
	NASDAQ	ASML Holding	Semiconductors	228.35
	NASDAQ	Nvidia Corp	Semiconductors	1449.27
	NYSE	Taiwan Semiconductors	Semiconductors	393.67
	NASDAQ	Microsoft Corp.	Software	345.33
	LSE	Diageo	Beverages	57.27
	NASDAQ	Texas Instruments	Semiconductors	231.77
	TSX	Molson Coors Canada	Beverages	-46.28
	TSX	Manulife Financial Corporation	Insurance	64.08
			<i>Average</i>	289.71
Refinitiv	LSE	Astrazeneca	Pharmaceuticals	68.18
	NYSE	SAP SE	Software	72.97
	NASDAQ	Walgreens Boots Alliance	Retail	-32.71
	NASDAQ	Microsoft Corp.	Software	345.33
	LSE	British American Tobacco	Food Products	-13.18
	LSE	GlaxoSmithKline	Pharmaceuticals	-35.19
	LSE	Standard Chartered	Bank	10.52
	LSE	Glencore	Mining	108.81
	NYSE	Unilever	Household Products	-12.71
	NYSE	Unilever	Household Products	22.53
			<i>Average</i>	53.46
S&P Global	LSE	Unilever	Household Products	24.19
	NYSE	Taiwan Semiconductors	Semiconductors	393.67
	LSE	Diageo	Beverages	57.27
	TSX	Telus Corporation	Telecommunications	22.78
	LSE	Banco Bilbao Vizcaya Argentaria	Banks	-19.68
	NYSE	Abbott Laboratories	Healthcare	180.72
	LSE	British American Tobacco	Food Products	-35.19
	NASDAQ	Biogen	Pharmaceuticals	11.72
	NASDAQ	Sanofi	Pharmaceuticals	16.53
	LSE	Banco Santander	Banks	-17.61
			<i>Average</i>	63.44

Source: providers listed, GEPL calculations

To analyse how the choice of ESG ratings provider can impact the portfolio and returns of a sustainable investor, we developed sample portfolios for each of our four providers. The portfolios contain the ten highest ESG rated companies by provider and include their financial performance over the most recent five year window.

In this time period, it becomes clear just how significant an investor's choice of ESG ratings provider can be. The portfolio composed of MSCI's top performers would have delivered investors an impressive 289.71% return over just five years. The next best alternative, a portfolio composed of Sustainalytics top performers, would have yielded a five year return of 150.68%, significantly less than the MSCI portfolio. Finally, the S&P Global and Refinitiv portfolios offer the lowest returns of 63.44% and 53.46%, respectively. It is notable that the Sustainalytics and MSCI portfolios are also significantly less volatile than the Refinitiv and S&P Global portfolios, both of which include three or more companies that yielded negative returns over the five year window. MSCI includes only one company with a negative return and Sustainalytics includes none.

We also find some interesting trends by looking at the exchanges within each portfolio. The TSX is the least occurring exchange, appearing only six times across the forty companies, and is totally absent from the Refinitiv portfolio. While the LSE is much more represented across each portfolio, appearing a total of eleven times, its absence from the Sustainalytics portfolio connects it to the TSX as the only two exchanges in our sample to not be represented in each of the four portfolios. This lack of uniformity in exchange representation points to the non-uniform nature of ESG ratings. Another notable trend is the role large returns from NYSE and NASDAQ listed companies, like Microsoft, Adobe, Nvidia, and Taiwan Semiconductors, play in significantly driving the overall returns of the portfolios they are a part of.

Analyzing the companies present in each portfolio further highlights the heterogeneity of the ESG ratings landscape. Despite each portfolio being composed of the rater's ten highest rated companies, only 5 companies, Microsoft Corp., Taiwan Semiconductors, Diageo, Unilever, and SAP SE, appear in more than one portfolio. Further, SAP SE is the only company which appears in three portfolios, only being absent from the S&P Global portfolio. This provides further evidence for the lack of uniformity in ESG ratings and how significant of a decision selecting a ratings provider is - as it can dramatically impact the composition and returns of a sustainable investment portfolio.

By identifying divergent portfolio performance based on ESG rating selection, we identify a tangible cost levied on investors, by incoherent ESG ratings. While the intention of ESG ratings is not to drive investment returns, the financial penalty of choosing the less profitable portfolio should motivate multiple stakeholders to support the standardisation of ESG performance.

Recommendation

Establishing Comparable Sustainable Accounting Standards

While the amount of ESG data, analyses, and ratings are plentiful, it is clear that there is a distinct lack of uniformity and comparability in the metrics currently available to investors. Our findings alone have highlighted how different ESG providers may rate the same company in different ways and, ultimately, how these ratings can significantly impact the investment decisions and returns of sustainable investors. As sustainable investing, and the analysis surrounding it, continues to grow, the need for uniform assessments has become clear. In a [survey run by Sustainalytics](#), researchers found that although investors regularly rely on ESG data and ratings, they face significant difficulties when trying to understand and compare them. This is a serious impediment when, as we have shown, multiple prominent ESG ratings providers can produce such divergent ratings for the same companies. Clearly, a lack of comparability has become a formidable barrier for the reliability and adoption of ESG ratings.

In order to address this issue of reliability and comparability between ESG ratings providers, we propose the core recommendation of establishing comparable sustainable accounting standards. This should allow for the underlying data driving ESG ratings to be easily compared and, generally, should result in more uniform ESG ratings. It is clear that an appetite exists for such comparable metrics. A [recent report put out by KPMG](#) found that 90% of corporates said that universal ESG metrics would be useful for financial markets and investment decisions.

Improving the comparability and reliability of ESG ratings is largely contingent on two main factors: measurement and methodology. [Research from the Milkin Institute](#) suggests that artificial intelligence and big data analysis should be used to collect and analyze the broad data needed for accurate, comparable ESG reporting - shifting some of the administrative burden away from the reporting company and individual ESG ratings providers. Ultimately, however, new data measurement techniques will depend upon the establishment of a common data methodology being developed for ESG evaluations, specifically via the creation of a common set of base variables.

Progress in This Direction

The findings of this research paper echo the calls of several other prominent institutions calling for greater comparability across ESG ratings. Most notably amongst these calls are the World Economic Forum International Business Council's (WEF) call for material, universal ESG metrics and the International Financial Reporting Standards (IFRS) Foundation's call for the establishment of a Sustainability Standards Board (SSB).

In September 2020, at the behest of the WEF, the Big 4 accounting firms (Deloitte, KPMG, EY, and PwC) accounting firms [released a report](#) identifying a set of universal ESG metrics that could be integrated into the mainstream annual reports of public companies. The metrics focus on four key categories: Principles of Governance, Planet, People, and Prosperity. In total the report recommends 21 core metrics and 34 expanded metrics be established across

these four categories. These metrics are designed to add additional uniformity and comparability to ESG data reporting. As well, in 2020, the five leading voluntary sustainability standard-setters [announced their commitment to working collaboratively](#) towards the creation of more comprehensive, uniform corporate sustainability reporting standards to reduce the lack of transparency and comparability that currently plagues the sector.

Similarly, progress is being made towards the establishment of an international sustainability reporting standards authority. In September 2020, the IFRS Foundation [released a consultation paper](#) recommending the creation of a SSB under the broader governance structure of the IFRS Foundation. The SSB is intended to operate alongside the International Accounting Standards Board, positioning it to benefit from an increased interconnectedness between financial and sustainability reporting. However, the success of this proposal is contingent on a sufficient level of global support from public authorities, regulators, and various other stakeholders.

Based on our research, we believe both of these proposals are what is needed to instill confidence in the current ESG ratings landscape. The universal metrics proposed by the Big 4 will introduce a significant degree of comparability in ESG reporting and create underlying data that makes it easier for investors to understand why the ratings of individual ESG ratings providers differ so significantly. As well, a body like the SSB will introduce a new level of reliability and transparency in the world of ESG reporting.

Conclusion

Ultimately, our analysis supports the findings of other researchers by showing there is no agreement or convergence between the ESG ratings of different ratings providers across numerous stock exchanges. Both a lack of uniformity and correlation indicates an incoherence in the information available to guide the decision of sustainable investors. We conclude by showing that investors who base their decisions off of the ESG ratings of a specific provider guide their portfolios by differential scoring methodologies, rather than objective and comparable company ESG performance - which can ultimately lead to wildly different investments and portfolio yields.

It is crucial to note that a lack of consensus surrounding sustainability, rather than technical inability or misconduct, drives investor uncertainty in this domain. We are in a stage of transition, where the importance of ESG reporting is beginning to be recognized but the current disclosure structure is inadequate for both corporations and investors alike. Internationally accepted sustainability reporting metrics and standards will generate a more coherent array of ratings systems that will pioneer greater comparability, transparency, and precision decision-making. In doing so, investors can be more assured that capital flows to the most sustainable companies and encourages more ESG consciousness.

Overall, ESG rating systems are an essential source of information for millions of sustainable investors, but there is still significant work to be done in the space. As sustainable investing continues to grow in popularity, it is imperative that work is done to ensure the data

informing these decisions is accessible, comprehensive, and comparable. As such, we echo the calls of the WEF, the Big 4 accounting firms, and the IFRS by proposing that the common metrics proposed by the WEF are integrated under the reporting framework of the SSB proposed by the IFRS. This would add legitimacy to the sustainable investing space and ensure that investors are making decisions informed by true sustainability, not the subjective methodology of ESG ratings providers.

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