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# ***IMPROVING ESG DATA***

Recommendations for improving the data ecosystem  
for environmental, social, and governance data

**The Data Coalition supports responsible efforts to ensure legitimate and ethical government data collections resulting in high-quality, accessible, and useful data. Data about Environmental, Social, and Governance (ESG) activities hold potential to provide insights about public and private sector activities relevant to our society and the well-being of the American people and economy. Government activities to regulate data collection about private or public sector ESG activities should be based on standardized data from existing domain standards, be machine-readable and interoperable with applicable international standards when feasible, and auditable to encourage accountability.**

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The Data Coalition advocates for government data to be high-quality, accessible, and useful. When government legitimately determines there is a need for information about either the public or private sector, this information should be publicly-accessible to the extent feasible to provide benefits for accountability and transparency about government regulation and markets alike.

With increased attention on important benefits of Environmental, Social, and Governance (ESG) activities across society, there are currently opportunities for the U.S. government to shape national and international data policies to enable the submission of data that satisfies national and international regulatory goals, while supporting investors and market efficiency. Market investors have significant interest in clear, reliable, and comparable ESG data from public and private companies to inform investment and voting decisions. Capital markets are increasingly

influenced by ESG data reports, estimated at \$51 billion in sustainable funds transfers in 2020 alone.<sup>1</sup>

If the U.S. government were to strategically take steps and provide global leadership for using modern data standards in ESG reporting, firms and governments in the U.S. would be better positioned to use data for designing policies and responding to market incentives for addressing climate change, increasing environmental sustainability, facilitating equitable and diverse operations and activities, and implementing responsible investments. In particular, multi-national firms in the U.S. operating and reporting to multiple national and international bodies would experience less burdensome requirements that could improve accuracy and consistency of reporting about global activities, resulting in higher-quality, more reliable, and more valid reports for both investors and regulators.

In 2021, the Data Coalition convened a working group of member-organizations to prepare recommendations for the most impactful and meaningful changes to U.S. data policy in the near-term that would support improvements to ESG reporting and data.<sup>2</sup> The working group consisted of experts in financial services, ESG reporting, data policy, and other relevant topics.<sup>3</sup> After reviewing the current state of the field, the working group concluded with three recommendations: that ESG data be standardized, machine-readable, and auditable.



## **CURRENT STATE OF THE ESG DATA ECOSYSTEM**

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The current state of the ESG data ecosystem in both the U.S. and globally is one of disarray, inconsistency, and incomparability. There are no consistent, dominant, and widely-accepted global or national ESG data and reporting standards. This means that understanding the information provided across firms, sectors, regions, or countries is not only challenging, but largely unreliable and uncertain. In practice, the market and investment firms substantially influence how ESG data are reported based on individuals who are submitting reports, with limited regulatory guidance and oversight. Individual reports provided by companies can often not be independently validated or audited to determine authenticity and accuracy. Many firms, advocacy groups, and researchers have called for additional guidance from government and international institutions on how to prepare and submit ESG data, and for guidance about where such data should be managed, such as in financial report or on firm websites for transparency to investors and other stakeholders.

Unfortunately, there is no consistent standard on where to submit ESG information or what types of

information to report for ESG, including individual metrics across domains or the formats of those metrics. This often means that there are gaps in comparability and incompleteness in indices used for monitoring trends in performance over time. Even if there were consistent standards accepted today, the voluntary nature of the system poses additional challenges in that those firms and entities who are submitting may have misaligned incentives to do so.

National and international financial regulators have an opportunity to improve transparency in the marketplace and for investors on indirect financial information (i.e., social and environmental factors that influence financial value) in a manner that reduces risk for investors. This is also a classic role for financial regulators, to manage risks for allocating capital in the markets, ensuring timely, meaningful, and accurate information. Regulators and governments have a duty to protect the health and welfare of the public, and modest adjustments to data policy affecting ESG data can result in substantial benefits for the American people and life outcomes.



# **RECOMMENDATIONS FOR IMPROVING THE ESG DATA ECOSYSTEM**

The U.S. national government, acting through the U.S. Securities and Exchange Commission, should take steps to provide clarity to markets with improved guidance on ESG reporting in the U.S. financial sector. Any modifications to national data policy in this regard should address the following three recommendations from the Data Coalition:

## **Recommendation #1: Standardized data should be built from existing domain standards to the extent feasible.**

The U.S. should contribute to consensus international domain standards to the extent feasible. Existing independent standard-setting organizations that take into account national, regional, sector, and market perspectives provide a platform for producing standards that are usable and consistent with global activities. For example, the Task Force on Climate-Related Financial Disclosure under the Financial Stability Board developed climate-related disclosure approaches using expertise from data users, preparers, and consultancies in a model that provides a successful and replicable approach.<sup>4</sup>

If international standards cannot be agreed upon by U.S. regulators, the highest-level governance standards that are agreeable should be adopted to meet national goals and objectives, while striving for interoperability and connectivity to international standards. However ultimately established in guidance or regulation, the Data Coalition strongly encourages regulators to consult with market practitioners when developing ESG standards. The use of standardized data from existing domain standards will help produce consistent, comparable, accurate, and transparent financial and indirect financial reporting data to ensure usability.

## **Recommendation #2: ESG disclosures should be reported as machine-readable, digital, and interoperable data.**

Standards established in the U.S. should conform to requirements in the OPEN Government Data Act, using non-proprietary standards or those available under an open license to ensure consistent data quality, accessibility, and to enhance efficiency.<sup>5</sup> Machine-readable digital data will optimize data interoperability and maximize data value for analytics and capture. Regulators could set an expectation that a machine-readable standard, implementing a domain standard, should also contain machine-readable logic that can be used to validate the quality and consistency of the reported data. This could, for example, follow existing models like the SEC's public company reports, Federal Energy Regulatory Commission eForm disclosures, the European Standards Market Authority, or the Value Reporting Foundation<sup>6</sup>

### **Recommendation #3:** **ESG reporting should be auditable to support accountability.**

As regulators weigh options for providing guidance and other actions on ESG data, additional considerations are needed for how to address necessary auditability of ESG reports. Auditability can be encouraged through the publication and development of common definitions and reporting procedures. Regulators may also consider guidance on appropriate internal controls and auditing procedures for ensuring such internal controls are in place and adequately adhered to in practice. This model could be similar to the widely accepted disclosure controls for financial reporting, which provide board, managers, and funders information that is reliably high-quality and understood across different organizations.<sup>7</sup> ESG reporting that incorporates data standards and machine readability must prioritize audited data throughout the data collection and reporting processes.

## **CONCLUSION**

The Data Coalition's recommendations on ESG reporting are intended to bring this important data stream to a place where it can be effectively integrated and used in a regulatory environment and for market decision-making. The time has come for the U.S. government to provide guidance on ESG reporting for increased clarity to the markets, to ensure investors and consumers have reliable information, and to hold firms accountable for claims about ESG and sustainability. Perhaps most importantly, improving ESG data and reporting structures as recommended by the Data Coalition will also help the country prepare for future informational needs related to climate change, sustainability, equity, and other important topics our policymakers, elected officials, businesses, and voters will be facing in the years ahead.

## ABOUT THE DATA COALITION

The Data Coalition is America's premier voice on data policy. The Data Coalition facilitates a strong national data community and advocates for responsible federal policies to make government data high-quality, accessible, and usable. The Data Coalition's work unites the data communities that focus on data science, management, evaluation, statistics, and technology, including individuals in companies, nonprofit organizations, and academia. The Data Coalition is the member-based advocacy arm of the nonprofit, non-partisan Data Foundation.

## RESOURCES

1 Morningstar Manager Research. "Sustainable funds U.S. Landscape Report." February 10, 2021. Available at: [https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt-2ed07cbffb2ab7d7/619f9dad36904a6c534380aa/Sustainable\\_Funds\\_Landscape\\_2021.pdf](https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt-2ed07cbffb2ab7d7/619f9dad36904a6c534380aa/Sustainable_Funds_Landscape_2021.pdf).

2 ESG criteria are a set of reporting standards for an entity's operations used by stakeholders including employees, customers, suppliers, investors, communities and regulators to assess risk and long-term value on non-direct metrics impacting the governance, people, profits, and the planet.

3 The Data Coalition ESG Working Group convened in 2021 and included representatives from member-organizations including DFIN, Workiva, SAP, Summit LLC, and the Global LEI Foundation, as well as Data Foundation staff.

4 See <https://www.fsb-tcfd.org>.

5 See Title II, Sec. 202(a) for the definitions of "machine-readable" and "open Government data asset" in P.L. 115-435.

6 Note that the Sustainable Accounting Standards Board (SASB) taxonomy is incorporated into the Value Reporting Foundation, along with the International Integrated Reporting Council. Following COP26, the IFRS Foundation Trustees formed the International Sustainability Standards Board to develop global baseline sustainability disclosure standards. IFRS Foundation will complete the consolidation of the Climate Disclosures Standards Board and the Value Reporting Foundation. See <https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-p-rototypes/>.

7 For the purpose of this summary, audit and assurance are interchangeable. The Data Coalition recommends that organizations address the relative importance of each of these characteristics to a particular engagement as a matter of professional judgment.