

ESG metrics and ratings Mapping and gap analysis study

TERMS OF REFERENCE Application due by March 10 2022

1. INTRODUCTION

The sustainable finance transition is currently under way and as such, ESG metrics¹ and ratings² represent an increasingly important tool for integrating sustainability considerations into the investment process. However, variations in methodologies adopted by ESG rating providers – including how the materiality of environmental and social performance is assessed and reflected in ratings – can make it difficult for investors and stakeholders to compare firm performance in a consistent and meaningful manner. Furthermore the credibility of ESG financial products and labels can be undermined where their relationship to a firm’s financial and well as actual environmental and social performance is not clear.

Greater alignment, interoperability and transparency of ESG metrics and rating methodologies has been identified as one of the three priority areas of the G20 sustainable finance working group (SFWG) roadmap³, officially endorsed on October 13th 2021. One expected outcome listed in the Annex of the roadmap is for the OECD to contribute towards improving data quality, usefulness, and transparency of methodologies, such as metrics choices and weightings, from ESG rating agencies and other sustainability data providers. Through this study⁴, the OECD Centre for Responsible Business Conduct (RBC) seeks to contribute to this outcome by understanding how ESG metrics and ratings interrelate amongst providers, how they conceptualize and reflect materiality and how they align with RBC principles and standards, to promote clarity and contribute towards reducing the risks of green and SDG-washing.

To support these aims, the OECD Centre for Responsible Business Conduct is seeking to enhance understanding of how ESG ratings providers’ methodologies work and vary, including in understanding their metrics and sub metrics, their methodologies for weighting metrics or classifying them as material, and to what extent metrics integrate and are aligned with international standards of RBC, including expectations contained in the OECD Guidelines for Multinational Enterprises (the MNE Guidelines) and the OECD Due Diligence Guidance for RBC (the Due Diligence Guidance). Through the study, the OECD is also looking to help investors leverage ESG ratings for their own due diligence, particularly in light of emerging legislation on sustainable finance and sustainable corporate governance, which draw heavily from OECD standards of RBC.

2. DESCRIPTION OF THE WORK

This contract will support the [OECD's financial sector project](#) and seek to strengthen understanding of ESG metrics and ratings and the extent to which they are aligned with actual environmental and social performance. With respect to the latter the study will also seek to understand to what extent such metrics and ratings align with RBC principles and standards.

The OECD Centre for RBC is looking for a contractor (individual consultant or company) to undertake a mapping exercise of ESG metrics of leading ESG ratings providers and undertake interviews to understand their

¹ The term “ESG metrics” can refer to quantitative and qualitative data and standards commonly used for assessing, comparing and tracking performance of companies in term of environmental, social and governance aspects (including their exposure to and management of ESG risks).

² The term “ESG ratings” can refer to the broad spectrum of ESG data products in sustainable finance and include ESG scorings and ESG rankings. ESG ratings, rankings and scorings serve the same objective, namely the assessment of an entity, an instrument or an issuer exposure to ESG risks and/or opportunities through consolidation and weighting of ESG metrics.

³ <https://g20sfwg.org/wp-content/uploads/2021/10/G20-Sustainable-Finance-Roadmap.pdf>

⁴ The study is part of the broader work the OECD is undertaking on ESG and sustainability-focused investing.

methodologies, particularly with respect to how “materiality” of ESG factors is assessed and reflected in ratings and the relationship environmental and social impacts over the near, medium and long-term and the perceived relationship to financial performance. The study would also consider how current metrics and methodologies align with each other (assessment and gap analysis) and with OECD RBC standards. The object of this work will be to:

1. Map existing ESG metrics from main ESG rating providers (and from disclosure frameworks and standards and benchmarking initiatives to the extent those frameworks support the metrics);
2. Conduct analysis of alignment and discrepancies of ESG metrics and ratings methodologies against each other, with a particular emphasis on how they assess materiality;
3. Conduct a benchmarking of ESG metrics (and ratings methodologies as feasible) against OECD RBC standards (i.e. MNE Guidelines and to the extent practicable, the Due Diligence Guidance).

3. KEY TASKS, ACTIVITIES AND METHODS OF WORKING

The contractor will be responsible for the below activities, under the supervision of the OECD secretariat:

Component 1: ESG mapping

Mapping of metrics building on previous data collection:

The contractor, in close collaboration with the OECD Secretariat, is expected to scope which data providers (including ratings providers⁵ and as relevant benchmark initiatives⁶) should be included in the scope of the study, based on market representation. The contractor will also advise on the type of ESG data products (i.e. ESG scores, Norm-based research, controversy screening) which should be included under the scope of the study. The final selection is to be approved by the OECD and should represent a meaningful representative sample and build upon initial mapping undertaken by the OECD Secretariat. In this respect the OECD Secretariat has started collecting and analysing ESG metrics from a selected number of ESG rating providers and ESG reporting frameworks and standards. The initial mapping undertaken by the OECD Secretariat looked at six ESG metrics and ratings providers: MSCI, Bloomberg, Thomson Reuters/Refinitiv⁷, Nasdaq, Trucost, and RepRisk and three reporting frameworks and standards: GRI, TCFD and the Value Reporting Foundation⁸.

Other rating providers that can be included in the study include Vigeo Eiris⁹, Sustainalytics, FTSE Russell's ESG Ratings or ISS Ratings. This initial data collection is primarily based on desktop research of publically available information as well as initial direct exchanges with a number of ESG rating providers. The contractor will work with the OECD Secretariat to understand where data collection efforts are to be prioritised.

Data collection and Mapping methodology

The ESG metrics and ratings mapping should be conducted through desktop research of publically available information from ESG ratings (and as relevant benchmarking initiatives) websites and reports. The mapping should include the following items: themes and subthemes covered, metrics and data points, scoring and rating methodologies (including data sources, weighting, review process, etc.) as well as how assessment on materiality as made. For each ESG rating provider, this should be conducted for a selected number of ESG data products as previously agreed upon.

⁵ ESG rating providers include firms that provide sustainability metrics and information supported by a qualitative and quantitative assessment of the non-financial disclosures by issuers.

⁶ Benchmarking initiatives are not-for-profit providing data and ranking of companies' sustainability performance (often through a sectoral lens).

⁷ Refinitiv and Thomson Reuters use the same list of metrics, thus their metrics are collected in one assessment.

⁸ The Value Reporting Foundation is the merger between SASB and the IIRC.

⁹ Recently acquired by Moody's.

Conscious that a significant amount of the information will not be publically available and to close the information gap, the OECD would organise informant interviews¹⁰ with relevant stakeholders, including ratings agencies, ESG analysts, investors and policymakers to complement desktop research. The contractor could leverage OECD stakeholders groups (i.e. the Financial Sector Advisory Group and Investor Network) to complement data collection with interviews and surveys.

Further, the contractor is expected to develop a mapping methodology (e.g., data input framework, typology for assessment, gap analysis and benchmarking against OECD standards of RBC) and undertake a pilot test with a few metrics to ensure that data collected can support successful delivery of component 2 and 3. The ESG metrics mapping methodology should organise and structure the collected data in a manner to foster clarity and meaningful interpretation.

Component 2: Assessment and gap analysis report

Alignment and discrepancy assessment of ESG metrics methodologies:

Based on data collected the contractor should produce an assessment and gap analysis of ESG metrics and rating methodologies against each other. The assessment should identify main common features and equivalencies between the different methodologies and the gap analysis should consider main discrepancies. In particular, the analysis should look at how ESG data is collected (sources), presented (e.g. raw, aggregated, processed), verified (quality analysis and review process), how scoring methodologies are conceived, including where possible weighting methodologies, use of quantitative and qualitative information, industry or geographic focus, or reference to internationally recognised standards and frameworks etc. The scope of the analysis should be decided in close collaboration with the OECD Secretariat and based on the result of the mapping and available information.

Understanding materiality

Importantly, the report should also include analysis on how the different metrics and methodologies inform materiality assessment. The OECD Secretariat has already undertaken several studies to assess the relationship of ESG ratings to financial materiality¹¹, thus the contractor is expected to focus predominantly on how such ratings actually reflect environmental and social performance and understand what aspects are considered to be material (or not) and why.

Component 3: Use of benchmarking methodology/gap analysis of ESG metrics and ratings against OECD RBC standards (i.e. MNE Guidelines and RBC Due diligence Guidance)

Based on the mapping study, the assessment and gap analysis, the contractor will also identify to what extent metrics and ratings align with the OECD RBC standards (i.e. MNE Guidelines and the RBC Due diligence Guidance). Similar to the ESG metrics mapping and gap analysis, the outcome of this phase of the project should organise and present the findings in a way that supports meaningful interpretation. The contractor is also expected to present results using an agreed upon typology (e.g. aligned, partially aligned, not aligned). Both linkages and gaps between ESG metrics and RBC standards should be clearly indicated in detail. In cases in which ESG ratings providers' metrics are largely misaligned with either RBC standards, due to risk scope or approach towards the RBC process, a high-level description of such misalignment will suffice in lieu of a line-by-line analysis. Where there is some degree of alignment, a line-by-line analysis of linkages by indicator or metric should be included.

DELIVERABLES:

The consultant is expected to provide the following deliverables:

- **Deliverable 1:** mapping of ESG metrics and ratings (in Excel table format);

¹⁰ The OECD would provide Non-Disclosure Agreements (NDAs) to ensure confidentiality of information shared.

¹¹ OECD (2021) [ESG Investing and Climate Transition Market Practices, Issues and Policy Considerations](#); OECD Paris

- **Deliverable 2:** Assessment and gap analysis report (including materiality approaches) in the form of a (maximum 15 pages) research report;
- **Deliverable 3:** Use of a benchmarking methodology of ESG metric and rating methodologies against OECD RBC standards, in the form of a (maximum 20 pages) report and associated comparative Excel table(s).

Drafting should follow the [OECD style guide](#).

Limitations: The OECD Secretariat recognises that access to data and metrics across the ratings providers might vary, which could be unequal and impede a clear and thorough comparative exercise. Many ESG ratings providers have multiple and varying sets of ESG data that they use for different products and services. The OECD Secretariat is seeking to examine ESG assessments and ratings that cover the broadest set of issues and sectors and are in widest use. These criteria can also be used as part of the scoping phase of the project.

BACKGROUND INFORMATION:

- IOSCO (2021), [Environmental, Social and Governance \(ESG\) Ratings and Data Products Providers](#)
- OECD (2021) [ESG Investing and Climate Transition Market Practices, Issues and Policy Considerations](#)
- OECD (2020) [ESG Investing: Practices, Progress and Challenges](#)
- EFRAG (2021) [Conceptual Framework for non-financial information standards setting](#)

4. TIMELINE, EXPECTED DURATION OF THE PROJECT

The consultant(s) will work closely with the OECD Secretariat and will provide updates on progress regarding the scope of work, as well as challenges and preliminary findings as relevant. The OECD Secretariat will make final decisions with respect to content for all deliverables developed under this project.

The project is expected to take place over a period of **5-6 months starting early in March 2022**. See **table 1** below for an indicative work plan.

Table 1. Example work plan

	Activity	Proposed Timing
1.	Kick-off meeting	Upon signature of the contract
2.	Scoping meeting for the mapping study	Upon signature of the contract
3.	Provide mapping methodology, test pilot & data collection	A month after signature of the contract
4.	1 st draft of the mapping study (deliverable 1)	Two months after signature of contact
5.	Possible interviews to complement the mapping study	Three months after signature of contract
6.	2 nd draft of the mapping study (deliverable 1)	Three months after signature of contract
7.	1 st draft assessment & gap analysis (Deliverable 2)	Up to four months after signature of contract
8.	Final draft assessment & gap analysis (Deliverable 2)	Up to four months after signature of contract
9.	1 st draft – benchmarking study (Deliverable 3)	Up to five months after signature of contract
10.	Final draft – benchmarking study (Deliverable 3)	Up to six months after signature of contract

5. MINIMUM REQUIREMENTS

The proposed expert shall have:

- In-depth technical knowledge of ESG metrics and methodologies
- Experience in conducting assessments, mapping studies and in-depth research on ESG;
- Strong research, analytical and writing skills;
- Demonstrated project management experience;
- Proficient English language skills.
- Prior knowledge of the OECD Guidelines for Multinational Enterprises and the OECD Due Diligence Guidance for RBC
- Availability to carry out all activities within 6-8 months of signature of the contract (expected starting date in March 2022).

6. HOW TO APPLY

Bidders interested in participating to this Market Consultation shall provide to Ms. Zara Kuruneri (zara.kuruneri@oecd.org) and Mr. Benjamin Michel (Benjamin.michel@oecd.org) by March 10th 2022:

- A full CV of the proposed expert (or CVs in the case of a consultancy/firm);
- One page (ca. 500 words) describing experience leading or supporting quantitative and qualitative research and analysis.
- One page (ca. 500 words) describing a or several proposed method(s) or approach(s) to do the assessment;
- A financial proposal for the execution of the work, clearly indicating:
 - the daily rate(s) of the expert(s),
 - the estimated overall costs and
 - the estimated breakdown of costs for each deliverable.
- An estimated timeline of the deliverables, indicating when the work could take place.