

September 3, 2021

Via Electronic Mail: Consultation-02-2021@iosco.org

Mr. Tajinder Singh, Acting Secretary General
Ms. Kris Nathanail-Brighton, Senior Policy Advisor
International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid, Spain

Re: Public Comment on ESG Ratings and Data Products Providers

Dear Mr. Singh and Ms. Nathanail-Brighton:

On behalf of The Institute of Internal Auditors (“The IIA”), I appreciate the opportunity to provide comments on the Consultation Report CR02/21 dated July 2021. I commend the Board’s efforts to assist its members in understanding the implications of the growing activities of ESG ratings and data products providers.

As mentioned in the executive summary of the Consultation Report, I would agree that ESG is growing considerably in response to stakeholder and regulator interests. At The IIA, one of our key priorities is to focus our association and profession on sustainability and ESG.

In December 2020, The IIA commented on the International Financial Reporting Standards Foundation (IFRS) *Consultation Paper on Sustainability Reporting*, noting the need for a global set of internationally recognized reporting standards; which we would agree promote international consistency and comparability and also forms the basis for the development of an assurance framework.

As a member of the Value Reporting Foundation, The IIA is committed to addressing the broader issues associated with ESG matters on a global level and advocating for the critical role of independent, internal assurance. In my July 2021 letter to IFRS Foundation Trustees in response to its exposure draft on governance structure, I stated my full support for the creation of a multi-stakeholder expert consultative committee, and we ask for the opportunity to work with Foundation Trustees and the International Organization of Securities Commissions to

Global Headquarters

1035 Greenwood Blvd, Suite 401

Lake Mary, FL 32746 USA

T: +1-407-937-1100

F: +1-407-937-1101

www.theiia.org

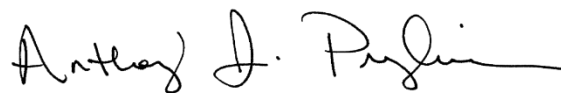
explore and participate in its development. The sustainability standard-setting process can only benefit from the internal audit perspective, as strong internal control environments are required to produce valid information to create trust for decision-making.

Currently, reporting and ratings methodology, scope, and coverage vary greatly among providers. I would agree that alignment on more standardized approaches by ESG ratings and data products providers would also provide more consistency for comparability from which the most informed decisions may be made; and that conflicts of interest should be assessed and managed so that ESG ratings and data products can be as objective as possible.

While operationalizing sufficient control activities is the responsibility of management, organizations should consider their internal audit function as necessary in providing objective assurance and advice that established control activities are properly designed and operating effectively to manage risk within tolerance, thus providing confidence and trust to stakeholders. Good governance includes an internal audit activity that assures trust as it is situated within the organization and can be confidently relied upon when adequately resourced and following the profession's international standards.

Thank you again for the opportunity to comment on your Consultation Report. Please see Annex A for The IIA's views on some of the proposed recommendations. If you have any questions regarding this issue, please contact me or Kathy Anderson, The IIA's Vice President of Advocacy & Stakeholder Relations, at Kathy.Anderson@theiia.org.

Sincerely,

A handwritten signature in black ink that reads "Anthony J. Pugliese". The signature is fluid and cursive, with a long horizontal stroke at the end.

Anthony J. Pugliese, CIA, CPA, CGMA, CITP
President and Chief Executive Officer
The Institute of Internal Auditors, Global Headquarters

Attachment: Annex A

Public Comment on ESG Ratings and Data Products Providers

ANNEX A

Recommendation 2: ESG ratings and data products providers could consider issuing high quality ESG ratings and data products based on publicly disclosed data sources where possible and other information sources where necessary, using transparent and defined methodologies.

- The IIA's views: We agree that the action points listed would enable higher quality ESG ratings and data products. Documenting and maintaining policies, procedures, and methodologies should lead to a systematic and disciplined approach that drives more consistent, expected results. ESG ratings and data products providers should use their internal audit activity to review processes to ensure they are operating effectively, in accordance with these policies, procedures, and methodologies. This will provide additional confidence to the provider organizations, especially if offered transparently to their external stakeholders, including issuers, users, and regulators.

Note: In the Consultation Report, Recommendations 3 and 4 were presented together for the purpose of providing views:

Recommendation 3: ESG ratings and data product providers could consider ensuring their decisions are, to the best of their knowledge, independent and free from political or economic pressures and from conflicts of interest arising due to the ESG ratings and data products providers' organizational structure, business or financial activities, or financial interests of the ESG ratings and ESG data products providers' employees.

Recommendation 4: ESG ratings and data products providers could consider, on a best efforts basis, avoiding activities, procedures, or relationships that may compromise or appear to compromise the independence and objectivity of the ESG rating and data product providers' operations or identifying, managing, and mitigating the activities that may lead to those compromises.

- The IIA's views: We agree that the action points listed will help ensure that products and services are not biased and are without conflict, including perception thereof. A core competency of internal audit is advising and assessing programs that drive integrity and ethics, including: risk identification and assessment, due diligence, training and awareness, exception response and tracking, and program reporting. These programs should also include a process (e.g., hotline) by which employees and other persons can report alleged exceptions for assessment and, if appropriate, investigation. Providers should use their internal audit activity to advise and assess on the design and effectiveness of said programs in order to provide more confidence both internally and externally.

Recommendation 5: ESG ratings and data products providers could consider making high levels of public disclosure and transparency an objective in their ESG ratings and data products, including their methodologies and processes.

- The IIA's views: We agree that the action points listed would help ensure that any public disclosures are usable and reliable. Internal audit is uniquely positioned to help their provider organizations ensure that any public disclosure is sufficient, accurate, clear, and usable — and in alignment with internal records — so that users understand and have confidence in the information.

Recommendation 6: ESG ratings and data products providers could consider maintaining in confidence all non-public information communicated to them by any company, or its agents, related to their ESG ratings and data products, in a manner appropriate in the circumstances.

- The IIA's views: We agree that ESG ratings and data product providers should have documented procedures and mechanisms in place to adequately receive and protect information received from non-public sources and in accordance with executed confidentiality agreements. These procedures and mechanisms should clearly articulate for what purpose the data is being collected, that its use will be limited for that purpose, how it will be maintained in order to be kept up to date, how it will be protected from any other use or disclosure, and how it will be deleted or destroyed if requested or by agreed time limits. Providers should obtain consent before obtaining non-publicly sourced data and companies should have the ability to withdraw said consent. Companies should consider asking for audit rights as a condition of consent and routinely engage with the providers to improve or correct data. Providers and providing companies should use their internal audit activities to help ensure the adequacy of the procedures and mechanisms, as well as their effectiveness.

Recommendation 7: Financial market participants could consider conducting due diligence on the ESG ratings and data products that they use in their internal processes. This due diligence could include an understanding of what is being rated or assessed by the product, how it is being rated or assessed, and limitations and the purpose for which the product is being used.

- The IIA's views: We agree that financial market participants who use ESG ratings or data products in their internal processes should review the policies, procedures, processes, and mechanisms of the ESG ratings and data products providers to ensure understanding, applicability, accuracy, timeliness, quality, and integrity of data, as well as gain confidence as to the integrity and ethics of providers. Financial market participants should use their independent, competent, internal audit activities to perform these reviews.