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Response by email to: consultation-02-2021@iosco.org

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Response to IOSCO Consultation Report on ESG Rating and Data Products Providers

We, the Association of Real Estate Funds¹ (AREF) welcome the opportunity to respond to IOSCO's 'Consultation Report: Environmental, Social and Governance (ESG) Ratings and Data Products Providers' (the Report).

We highlight that in developing regulation policy makers should take into account specific characteristics which could apply in the case of funds holding underlying real estate:

- real estate which may be held directly and/or via special/intermediate/holding vehicles: for example, there can be a variety of different types of vehicles; and
- relevant data may only be available to occupiers and other third parties. The fund managers may not be entitled to such data. The occupiers and other third parties may have exclusive proprietary rights to the data and not obliged to disclose the data to real estate owners and/or managers.

We support the work of IOSCO's Sustainable Finance Task Force (STF) including Workstream 3 of the STF, on ESG ratings and data products providers. We consider that the IOSCO publication of guidelines can improve the experience of ratings users with a view to achieving robustness with ratings and the methodologies that underlie the ratings.

The Report usefully highlights the increasing importance of ESG ratings for investment managers. We consider that regulation is becoming a driver of the need for additional ESG ratings and data points, as qualifying real estate fund managers are required by rules (or will be) in several jurisdictions to make disclosures on the climate or broader ESG characteristics of their portfolio holdings.

The Report usefully recognises that the same shortcomings in data availability are equally challenging from the point of view of ratings providers. This highlights the need to ensure that in designing rules applicable to real estate and other qualifying fund managers on the management or disclosure of ESG risks, policymakers must ensure the availability of corporate disclosures and require disclosure by listed issuers of key climate metrics. Otherwise the fund managers could incur substantial cost by using external ratings and data products to plug data gaps, when those ratings are themselves affected by the same gaps in terms of corporate disclosures.

¹ The Association of Real Estate Funds represents the UK real estate funds industry and has around 60 member funds with a collective net asset value of more than £72 billion under management on behalf of their investors, including £18 billion on behalf of retail investors in the UK. The Association is committed to promoting transparency in performance measurement and fund reporting through the AREF Code of Practice, the AREF/IPD UK Quarterly Property Funds Index and the AREF/IPD Property Fund Vision Handbook.

In relation to the draft guidelines, we agree with IOSCO's focus on the transparency of ratings providers' methodologies, as well as the reduction and disclosure of potential conflicts of interest. We recognise the challenges that in terms of understanding and validating the approaches used by different ratings providers and the associated need for greater transparency for users of ratings in respect of the underlying methodologies.

We also support IOSCO looking at the role that industry standards or codes of conduct could play in ensuring a baseline approach to the disclosure of conflicts of interest and methodologies by ratings and product providers. We recommend that regulators focus on industry-led initiatives to address solutions which can have issues relating to real estate holdings (and relevant occupiers).

If you would like to discuss our response with us, please contact either myself (prichards@aref.org.uk) or Jacqui Bungay (jbungay@aref.org.uk), Policy Secretariat at AREF. Also, as our members invest in real estate and other real assets for various types of open-ended and closed-ended funds, in the UK and in other jurisdictions, we are always willing to assist IOSCO by sharing this wealth of knowledge and expertise.

Yours sincerely



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