



**PLATFORM ON**  
SUSTAINABLE FINANCE

# Disclosures, data and usability challenges

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# State of Affairs

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- Poor quality or unavailable data, biggest obstacle to sustainable investing\*
- Thanks to **regulation** and **investor demand**, data is improving by the day
- According to the Governance & Accountability Institute, only 20% of S&P companies were reporting ESG metrics in 2011 – that number ballooned to 90% by the end of 2019
- Yet, data needs are becoming more and more demanding
- Limitations to investor and financial institutions demands
- Limitations to regulation

# Investor Demand

## And financial institutions



- Shareholder engagement: individual vs. collective
- Effective Voting
- “Bilateral relationship”
- Role of data providers and proxy advisors

# Usability: EU Taxonomy

## Taxonomy as an example.



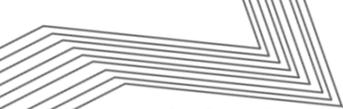
- Today impossible to fully assess compliance: revenues, classification of activities, when available incomplete, average (not bottom up), capex.
- It requires a bottom up approach vs. mainstream top-down
- Non-existent today
- Complementary role

# Usability: EU Taxonomy



Even if intimately related there is a clear difference between:

- **Stock approach**: importance of the business model, context, taxonomy a variable.
- **Portfolio approach**: key common indicators but compensation/trade offs possible, importance of second-level disclosures to provide transparency, importance of SH taxonomy.
- **Strategic asset allocation**: forward looking, scenario analysis, pathways, Taxonomy.



# Unintended consequences to watch out for

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## Diverting finance

- Biased towards more transparent and not best performers
- Larger companies versus smaller and EMEs
- Requesting data without context (risk exposure, management)
- Remedy vs. Exclusion, engagement vs. exclusion
- Diverting focus from what is important e.g. Banks – Taxonomy fees and commissions on M&A
- Complex social issues e.g. supply chains and labour rights example of Rana Plaza
- Gender pay gap or lack of females in senior management positions?



# Conclusion

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- Significant gap between:
  - Data availability, quality and format and Sustainable Finance/Taxonomy needs
  - Regulatory requirements and underlying reality of the market
- Yet, there is an urgent need to regulate in order to foster sustainable finance.
- Requiring disclosures to financial institutions based on non-existent data enhances data availability
- But a transition period, prioritisation, the use of estimates (role of data providers) and some level of flexibility are a must if we are to succeed.
- There is a real tangible risk to make reporting the end goal instead of just the means towards
- Watch out for unintended consequences