

Corporate Sustainability Disclosure is Not the Primary Driver of MSCI ESG Ratings

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The topic of corporate ESG disclosure is among the ESG trends to watch in 2018, according to a [recent report from MSCI](#).

Companies are increasingly providing voluntary information about their sustainability practices, and since MSCI ESG Research is among one of largest groups that review and rate corporate ESG disclosures and practices, grading companies from AAA to CCC, MSCI is “one of the world’s largest consumers” of corporate sustainability disclosure.

As the report explains, companies are providing more information given that investors are overwhelmingly supportive of efforts by various standard setters to encourage disclosure, with an alphabet soup of requests and choices that companies can follow, including CDP, GRI, SASB, IIRC and FSB. MSCI suggests that “corporate resistance is increasingly futile,” given pressure from investors asking for more transparency regarding ESG issues.

With all this effort, companies may be disheartened to learn that MSCI is skeptical about the usefulness of the voluntary corporate information, finding that some disclosures are “carefully manage[d]” and undergo a “thorough painstaking editing and brand-polishing process.” Many investors surveyed do not “trust” the voluntary information, and MSCI questions whether the disclosure is “objective,” since it is “purely voluntary” and not subject to regulatory or auditor oversight.

In a sample of their coverage universe, MSCI found that only 35% of any given company’s ESG rating, on average, comes from a company’s voluntary disclosure. The remaining 65% is composed of scores using data from other sources, including:

- Enforcement and media sources, such as databases on government fines, violations and investigations, as well as 1,600+ local and global media outlets;
- Databases on specialized topics from government, academic, NGO and commercial sources, including the U.S. Bureau of Labor Statistics and others, covering more than 100 specialized datasets; and
- Mandatory corporate disclosures, such as financial filings and proxy statements.

Overall, voluntary disclosures contribute somewhere between almost 30% to 40% to the ESG ratings, roughly the same amount as the information obtained from the specialized databases. Mandatory corporate disclosures contribute around less than 20%, mostly with respect to the description of governance practices from proxy statements.

The correlation between corporate voluntary disclosure and ESG scores was so low that companies deemed “strong disclosers,” where more of their scores rely on the companies’ own voluntary reporting, did not necessarily receive better ratings, such that 5% of strong disclosures got ratings that put them in the category of “ESG Laggards.” In the meantime, 60% of “weak disclosers” got ratings of average or above.

MSCI cautions that investors should not “overly rely on what companies say they do,” and expects that the “availability of big data,” as it increases, will continue to “play a crucial role in balancing the corporate narrative.”

None of this will stop companies from continuing to try to understand and play a role in their scores. MSCI invites companies to provide comments and feedback on the data in their reports, and they have observed a “dramatic increase” in the number of companies asking about their ESG assessments over the last three years, from less than 300 in 2014 to closer to 1,000 companies in 2017.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

Ning Chiu

+1 212 450 4908

ning.chiu@davispolk.com

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