IFI Global

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The ESG Report

ESG's impact on the fund industry

ESG standardisation needed

To track flows into the now numerous investment themes covered by the wide variety of ESG funds, there will have to be much better definition and categorisation of the many different areas that come under the environmental, social and governance pillars. The lack of standardisation from the data providers is a huge problem.

Investors and fund managers often say that they are frustrated by the lack of commonality. There is no standardisation even in the way most common investment areas across the environmental, social or governance pillars are categorised.

Thomson Reuters, MSCI, Bloomberg and other data providers have different ways of categorising their environmental, social and governance pillars (see below). This makes it difficult to track investment flows into even the key areas of the environmental pillar, where there is such a large focus at COP26.

ESG data providers, such as Thomson Reuters, MSCI, Bloomberg, Sustainalytics etc have a critical role to play in ESG investing, particularly on the sustainable side of it. Their business is to gather and assess information about companies' ESG practices and then scoring those companies accordingly. Their ratings systems are widely used by the investment community worldwide. What they come up with effectively drives ESG investing, especially in sustainability.

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The economics of decarbonisation

A study of the economic costs and benefits of decarbonisation policies, made by the Institute for New Economic Thinking at Oxford University, ahead of COP 26, has come up with some surprising findings.

The study concludes that there is a substantial economic net gain from decarbonisation, defying the commonly help view that the costs of transitioning to a more environmentally friendly world will be prohibitively expensive. The Oxford study states that the net gain from decarbonisation is $26 trillion or $14 trillion under cautious assumptions.

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