

ISDA response to the European Commission consultation on the ‘Roadmap’ for the proposal to establish a European Single Access point

The International Swaps and Derivatives Association (ISDA) welcomes the opportunity to respond to the European Commission’s consultation on the Inception Impact Assessment (‘Roadmap’) for the proposal to establish a European Single Access point for financial and non-financial data.

In view of our broad membership, we are providing various comments that reflect the views of ISDA’s different member institutions.

General comments

ISDA strongly supports the creation of a European Single Access Point (ESAP) for financial and non-financial information, in order to bridge the gap between information credit institutions and financial market participants (FMPs) need to honour a diversity of ESG commitments and obligations and those which are made available by borrowing companies and issuers. As is widely acknowledged, environmental, social and governance factors (ESG) data points are not yet easily available and sufficiently reliable, comparable and exploitable to support a scalable sustainable finance framework as well as banks’ integration of ESG factors into their risk management framework and their credit portfolio alignment with sustainable objectives. Enhanced digitalization of reporting and a single access point are definitely part of the solutions to explore. The scarcity of ESG data is negatively impacting the implementation of initiatives resulting from the European Commission’s (EC) Sustainable Finance Action Plan such as the EU Taxonomy Regulation, the Disclosures Regulation (‘SFDR’), the Low-Carbon Benchmarks Regulation (‘LCBR’) and the integration of ESG factors into banks’ risk management frameworks. Given that these initiatives are supplemented with Level 2 legislation, FMPs are required to disclose a large variety of ESG factors, which are currently not available or require access to databases of multiple ESG data providers. Therefore, the required ESG data points will need to be significant in order to fulfil the key objective of closing the ESG data gap, with a view to rendering the ESAP fit for purpose.

- **Current fragmentation of information and search costs:** ISDA agrees that the fragmentation of information across member states has detrimental effects on the funding of companies, in particular SMEs. Additionally, the absence of a ‘golden source’ also hampers the implementation of other sustainable finance related regulation (Taxonomy, SFDR, LCBR etc.) by banks and asset managers due to the associated costs related to the purchase of ESG data and processing of information from diverging data sources. Therefore, the establishment of ESAP is expected to significantly reduce search and implementation costs while enabling the marketability of ESG-linked financial products.
- **Machine readability:** ISDA agrees with the European Commission that machine readability of data is crucial for the purpose of using ESG and financial data for a variety of financing or investing activities. Enabling the use of artificial intelligence

and other data science methods to analyse trends, risks and find opportunities will accelerate their development and it is important that the whole universe of ESG data sources can align to clear open standards to do so. Building the ESAP based on reliable digital standards and data models such as the ISDA Common Domain Model is a prerequisite for this digital opportunity to be exploited. And building on a foundation of digital standards furthermore would help to resolve data issues in tracking and reporting of sustainability risks and factors to reduce the operational challenge of conforming to new reporting requirements as well as supporting companies with responding to the growing demand of sustainable products. Therefore, available, reliable and fully exploitable data could encourage credit institutions and FMPs, to expand their offering of sustainable financing solutions and financial products with related risk management tools such as ESG linked derivatives¹.

- **Non-financial reporting standards should be clarified prior to digitisation:** ISDA acknowledges that reporting obligations are naturally evolving over time, to adapt to changing needs of banks, investors, consumers, citizens and regulators. Whereas the scope, practice and purpose of financial reporting are well established, the characteristics of reporting of non-financial/ESG or extra-financial information are still under active discussion at the global level. ISDA believes that the review of the Non-Financial Reporting Directive (NFRD) and European Financial Reporting Advisory Group's (EFRAG) work towards a potential non-financial reporting standard will play a prominent role to improve the quality and availability of ESG data and to establish a broad database. In this context, we would like to highlight that the necessary non-financial reporting standards should, as a priority, set the basis for possible digitalisation. Furthermore, it is important that existing standards used and considered in the design of the ESAP, for financial data, are considered for reuse where appropriate while being consistent with the architecture and sectoral nomenclature to be defined under the forthcoming review of the NFRD. At a minimum, the use of standards for both financial and non-financial data which have the same or similar governance frameworks or design principles will be crucial to the success of their consistent implementation. ISDA is looking forward to engaging with the relevant decision makers on the review of NFRD, the establishment of ESAP and the upcoming renewed Sustainable Finance Strategy.

¹ <https://www.isda.org/a/qRpTE/Overview-of-ESG-related-Derivatives-Products-and-Transactions.pdf>

About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has more than 925 member institutions from 74 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on Twitter @ISDA.