Insideview

The Role of ESG Data in the Sustainable Transformation of the Real Economy

INTERVIEW WITH CHRISTINA SELL

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Today's investors increasingly turn to sustainable and socially responsible investing. Consequently, aspects of ESG – i.e., "Environmental Social Governance" – are becoming more important for companies. What is the role of a market operator, specifically your Trading and Clearing Division, in this context?

Generally, our mission is to translate client needs into capital market products. With regards to ESG, we want to offer beneficial, market-driven solutions that respond to changing societal values and that support the sustainable transformation of the real economy.

In which fields is ESG data applied and what financial products use ESG data?

ESG data is at the core of our ESG product development and applied in all fields where we can provide additional value to the market – starting from increasing transparency through resource and capital allocation, to effective risk mitigation. To give just two examples: Dedicated ESG segments and available issuer ratings improve transparency and ease investment decisions, while our ESG derivatives products can be utilized to hedge against respective market risks.

What are the main challenges in preparing ESG data and who offers them?

For the time being, the list of challenges is still quite extensive: new metrics, new complexities, and new requirements arise at the same time that we face a lack of standardization, completeness of regulation, as well as the full support of analytics tools and techniques. Even the lack of relevant data points can be an issue. For instance, just think of climate risk information which needs to be integrated into companies' existing risk management frameworks and stress tests. To date, traditional sources have not provided climate or transition risk data, and systems are often not yet prepared to process them. With ISS and Qontiqo, Deutsche Börse is very well equipped with leading ESG data research and analytics providers in-house, but startups and other companies can also be interesting partners. Last but not least, we should not forget that in this context the financial markets themselves are important data providers, i.e., they provide for transparent, supply- and demand-orientated market prices in the ESG area.

Forward-looking, what is your expectation concerning the relevance of ESG data in the future?

From my point of view, the relevance of ESG data will further increase, because it enables us to measure the impact that we generate and to work on science-based knowledge. Looking to the future, I am somewhat optimistic: Both the availability and quality of data, as well as the range of innovative tool solutions, is growing rapidly. Similarly, social and governance data are becoming increasingly important alongside environmental data – a fact that can strengthen the positive transformational effect on societies. The new disclosure regulations are fueling this development.

AI might help to further accelerate this process. Data harmonization is certainly the most difficult part, but I sense a unique momentum of global efforts to achieve alignment and avoid contradicting regulations as we have seen in the past. With the EU leading on this ambitious path, we can already see positive effects, such as increased awareness and a rapidly growing number of investments in ESG products. But, of course, there is still a long way to go and we need to further improve our collaboration and performance to make the ESG transformation a success story within the given timeframe.

Thank you for this interesting conversation.