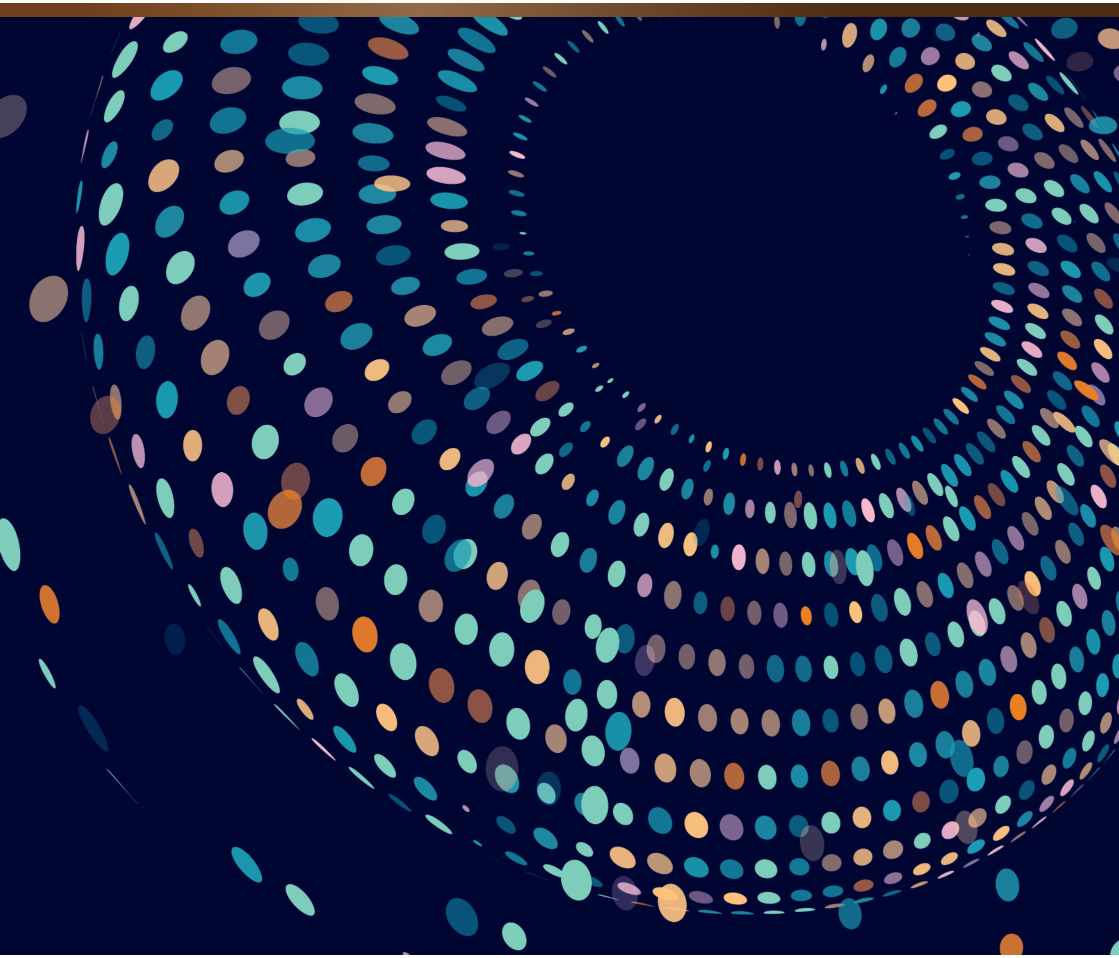
FUSION BY J.P. MORGAN

How technology transforms sustainable investment data complexity into an advantage



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The sustainable investment data landscape is fragmented and ever-changing, and it's a challenge for investors to efficiently manage their data and comply with evolving regularity requirements.

Globally, ESG and sustainability considerations continue to influence operational objectives of institutional investors, their clients and regulators.

To satisfy the complex demands of various stakeholders, investors require vast volumes of sustainable investment data from multiple providers, as well as advanced capabilities to achieve their desired outcomes.

Factors shaping the sustainable investment data landscape

Investors continue to face complex challenges with sustainable investment data.

1. Across multiple jurisdictions, regulators require reporting on sustainability criteria, yet reporting standards remain unharmonized.

2. Asset owners focused on sustainability want to be sure that the assets they invest in are not simply 'greenwashed'.

3. ESG data from different sources can be inconsistent or have low coverage, yet it is needed for the investment process and reporting.

To understand the scope of the ESG and sustainable investment data challenge facing asset managers and asset owners, let's look at each of these in turn.

Rising regulatory pressures

"As the global stakes get higher for ESG, asset owners remain highly committed to addressing an increasingly complex and persistently challenging environment for sustainable investing."

Morningstar, Voice of the Asset Owner Survey 2023

Over the past decade, worldwide sustainability regulations in finance have increased by 155%.[1] This includes the European Union's new Corporate Sustainability Reporting Directive (CSRD) law that took effect in January 2023, which will affect reporting beginning this year. Aimed at driving change in the business behavior of companies operating in the European Union, it includes US companies with EU subsidiaries that meet certain criteria and is not limited to publicly-traded companies. Twelve new European Sustainability Standards (ESRS) under CSRD will require comprehensive and granular disclosures across all sustainability topics,[2] and it is expected that 10,000 non-EU businesses, including 3,000 US companies, will be affected by CSRD reporting requirements in 2024.[3]

Globally, the International Sustainability Standards Board (ISSB) issued inaugural voluntary global sustainability disclosure standards in 2023. Multiple jurisdictions have expressed their intent to adopt these standards into national law, including Australia, Canada, Hong Kong, Japan, Malaysia, New Zealand, Nigeria, Singapore, and the UK, among others.[4]

In the US, the Securities and Exchange Commission's 2024 regulatory agenda includes the finalization of its promised climate disclosure regulation and updates to the names rule to include sustainable investing terms, as well as other ESG-related proposed rulemaking. In California, climate-related disclosure laws passed in 2023 begin taking effect this year, continuing through 2026.[5] 'Greenwashing,' or a lack of transparency in sustainability reporting, continues to be a concern for both regulators and investors.

In complying with individual regulations, institutional investors face a bewildering array of requirements across jurisdictions. With more than 600 sustainable investment reporting standards in use today[6], the need for harmonization or a more unified reporting methodology is becoming more apparent. Given the variability and complexity of regulation, investors rely on multiple sources of data to comply with existing requirements.

1. *Mind the data gap, July 2023, ESG Book*
2. *Worldwide Impact of CSDR, are you ready? January 2024, and What US companies need to know about the EUs CSRD, PwC*
3. *ESG Trends 2024, February 2024, Wolters Kluwer*
4. *ESG Insights: 10 Things That Should Be Top of Mind in 2024, January 2024, Harvard Law School Forum on Corporate Governance*
5. *Ibid*
6. *ESG Trends 2024, February 2024, Wolters Kluwer*

Fragmented, unstandardized, and costly data

The volume of ESG and sustainable investment data continues to proliferate as reporting standards expand, making it difficult to manage efficiently.

Asset managers are the heaviest spenders on sustainable investment data, representing 59% of all buyers, followed by insurers and other institutional investors.[7] Two years ago, institutional investors were spending an average of $1.3 MM annually just to collect, analyze and report climate data to inform their investment decisions.[8]

Key challenges cited by investors *(Source: EY, March 2023)*

Rank	Challenge	Percentage of respondents
1	Quality of data-contradictions	22%
2	Escalating cost	17%
3	Conflicting vendor ratings and scores	15%
4	Lack of comparable data across regions	12%
5	Lack of coverage across E, S and G	10%
5	Lack of consistent data across sectors	10%
6	Lack of data within sectors	7%
6	Lack of transparency	7%

To obtain the different data sets they use, investors are relying on multiple data providers - a costly proposition that adds more contradictory, unstructured and fragmented data to the mix. Worse, it creates an even higher cost base, since in-house reconciliation and analysis is needed to rationalize and curate the data into a usable state.

With data that is often unstandardized and delivered in different formats - such as unconnected software applications, APIs and even spreadsheets - it is a daunting, resource intensive, and costly task.

7. *How ESG data markets have evolved for financial services, March 2023, EY*
8. *Survey reveals costs and benefits of climate-related disclosure for companies and investors, May 2022, ERM*

The current state of play

As asset managers and asset owners look to integrate sustainable investment data into their investment strategies to meet end investors' demands and evolving regulatory and reporting requirements, they face some common challenges.

Time-consuming data wrangling

To gain a holistic sustainable investment perspective, organizations acquire, cleanse, merge and systematize data from dozens of internal and external sources - before analysis can even begin.

1

Data coverage gaps

Regulatory reporting requires transparency into corporate hierarchies. Yet data is often available only at the parent level. Identifying and filling data gaps is complex and impacts the ability to create investment universes or meet sustainability mandates.

2

Screenings maintenance

The addition of sustainability criteria into allocation and risk management goals causes the number of screenings to skyrocket, which becomes operationally unsustainable. Providing transparency in reporting is challenging.

3

Creation of custom metrics

To deliver unique analysis, it's often necessary to build custom metrics. These calculations are done offline on spreadsheets and in disparate applications, with manual lookups and errors that compound downstream.

4

Institutional investors typically take one of two approaches to managing their sustainable investment data and generating insights. Some may rely on the data purchased and received from third-party vendors, which can have inconsistent disclosures in terms of information and reporting.

The current state of play

continued

Others choose to cleanse data in house, hiring data scientists to perform analyses and to manually clean data from their multiple sources. This approach is not only time-consuming and resource-intensive, but it also adds onto the already high cost of procuring the data in the first place. Furthermore, it creates new risk from having to handle ad-hoc structural and schema changes by data vendors.

As investors note in different industry surveys, both options are problematic.

So, what's an investor to do?

"Finding pragmatic solutions to data challenges is the bedrock to the implementation of a successful ESG-focused strategy to attract clients, satisfy regulators and enhance revenue."

Roundtable Discussion: Driving ESG Agendas with Data, July 2023, Citisoft

Investors are looking to technologies like the cloud and AI to power advanced analytics and cope with massive amounts of sustainable investment data. Cloud technology can handle vast volumes of data, providing the ability to scale quickly without increased operational costs. AI can accelerate analysis, but only if the underlying data is reliable.

As has been shown time after time, technology alone won't solve data problems: outcomes are only as good as the data that feeds the technology. Instead, investors can establish a scalable and solid data foundation that will support analytics and operations today, enable cloud-based efficiency and scalability, and fuel AI-driven solutions.

Consistency in data and smoothly integrated analytics will allow institutional investors to meet regulatory and end-investor expectations. More importantly, it will enable them to capitalize on the sustainable investment evolution to capture operational efficiencies and improve decision making.

A sustainable investment data solution needs to solve the critical data issues faced by investors today: easily sourcing data from multiple providers, getting data into a consistent state for analysis, applying proprietary lenses into data to solve for corporate hierarchy nuances, and developing multiple screening rules and custom calculations to solve for the most complex use cases.

To make faster, more effective investment decisions, asset managers and asset owners benefit from access to clean data, with tools to ensure strong data governance, all accessible via modern channels.

Meeting institutional investors where they are

As a leading asset servicing provider, J.P. Morgan uses its expertise and deep understanding of complex client challenges to offer a better way to manage sustainable investment data. **Fusion by J.P. Morgan**, a cloud-native data technology solution, provides a managed data service, analytics and reporting capabilities.

The platform integrates sustainable investment data from multiple sources, normalizes it for consistency, and delivers tools for screening, hierarchy management and advanced calculations.

Data Ingestion

Easily ingest data from multiple providers, including MSCI, Sustainalytics, ISS ESG, and more. ESG data cross-compatibility across providers is achieved through a consistent structure and common identifiers, enabling instantaneous joins across datasets.

Hierarchy Management

Address inconsistencies or missing data that result from complex corporate hierarchy reporting, through management of company hierarchies, overrides and data propagation rules to estimate data for companies with gaps in sustainable investment data. This broadens the investable universe.

Screening

Support for extensive inclusion and exclusion criteria, allowing the creation of dynamic investment universes that align with institution specific sustainability mandates and aid portfolio construction for proprietary funds.

Metrics Calculation

Eliminate the need for ad-hoc offline calculations. Normalized data within Fusion can be used to calculate custom sustainable investment metrics, immediately accessible for rules-based screening and hierarchy-based metrics propagation.

Meeting institutional investors where they are

continued

Fusion makes data accessible: Investors can integrate and consume it using API, Jupyter notebooks, and cloud providers such as Snowflake and Databricks. This not only addresses the transparency concerns common to investors, but also allows data to be utilized at every stage of the investment management process.

Understanding that different organizations are at different maturity stages in managing sustainable investment data or optimizing their investment practices, Fusion is a flexible solution that meets investors where they are. Its capabilities can be adopted on a modular basis, with a quick plug-and-play into any tech stack. Investors gain cost control with lower operating expenses and minimal capital outlay, since they only subscribe to the services that best suit their specific needs. Alternatively, Fusion solutions are available as an end-to-end managed service, allowing investors to offload their trickiest data problems and helping them to move faster and focus on what they do best.

Fusion by J.P. Morgan can help institutional investors immediately extract value from multiple providers of sustainable investment data.

Learn more
https://fusion.jpmorgan.com/solutions/sustainable-investment-esg

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