

Targeted consultation on the functioning of the ESG ratings market in the European Union and on the consideration of ESG factors in credit ratings

Fields marked with * are mandatory.

Introduction

The first part of the consultation aims to inform the Commission on the functioning of the ESG ratings market, on its potential shortcomings and on the need for EU intervention.

The second part of the consultation aims to inform the Commission on possible shortcomings in relation to the consideration of sustainability factors in credit ratings, on disclosures made by Credit Rating Agencies and on the need for EU intervention.

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-esg-ratings@ec.europa.eu.

More information on

- [this consultation](#)
- [the consultation document](#)
- [the call for evidence accompanying this consultation](#)
- [EU labels for benchmarks \(climate, ESG\) and benchmarks' ESG disclosures](#)
- [credit rating agencies](#)
- [the protection of personal data regime for this consultation](#)

About you

* Language of my contribution

- Bulgarian
- Croatian
- Czech
- Danish
- Dutch
- English
- Estonian
- Finnish
- French
- German
- Greek
- Hungarian
- Irish
- Italian
- Latvian
- Lithuanian
- Maltese
- Polish
- Portuguese
- Romanian
- Slovak
- Slovenian
- Spanish
- Swedish

* I am giving my contribution as

- Academic/research institution
- Business association
- Company/business organisation
- Consumer organisation
- EU citizen

- Environmental organisation
- Non-EU citizen
- Non-governmental organisation (NGO)
- Public authority
- Trade union
- Other

* First name

* Surname

* Email (this won't be published)

* Organisation name

255 character(s) maximum

* Organisation size

- Micro (1 to 9 employees)
- Small (10 to 49 employees)
- Medium (50 to 249 employees)
- Large (250 or more)

Transparency register number

255 character(s) maximum

Check if your organisation is on the [transparency register](#). It's a voluntary database for organisations seeking to influence EU decision-making.

* Country of origin

Please add your country of origin, or that of your organisation.

- Afghanistan
- Djibouti
- Libya
- Saint Martin

- Åland Islands
- Albania
- Algeria
- American Samoa
- Andorra
- Angola
- Anguilla
- Antarctica
- Antigua and Barbuda
- Argentina
- Armenia
- Aruba
- Australia
- Austria
- Azerbaijan
- Bahamas
- Bahrain
- Bangladesh
- Barbados
- Belarus
- Belgium
- Belize
- Benin
- Bermuda
- Bhutan
- Bolivia
- Dominica
- Dominican Republic
- Ecuador
- Egypt
- El Salvador
- Equatorial Guinea
- Eritrea
- Estonia
- Eswatini
- Ethiopia
- Falkland Islands
- Faroe Islands
- Fiji
- Finland
- France
- French Guiana
- French Polynesia
- French Southern and Antarctic Lands
- Gabon
- Georgia
- Germany
- Ghana
- Gibraltar
- Greece
- Greenland
- Grenada
- Liechtenstein
- Lithuania
- Luxembourg
- Macau
- Madagascar
- Malawi
- Malaysia
- Maldives
- Mali
- Malta
- Marshall Islands
- Martinique
- Mauritania
- Mauritius
- Mayotte
- Mexico
- Micronesia
- Moldova
- Monaco
- Mongolia
- Montenegro
- Montserrat
- Morocco
- Mozambique
- Myanmar/Burma
- Namibia
- Saint Pierre and Miquelon
- Saint Vincent and the Grenadines
- Samoa
- San Marino
- São Tomé and Príncipe
- Saudi Arabia
- Senegal
- Serbia
- Seychelles
- Sierra Leone
- Singapore
- Sint Maarten
- Slovakia
- Slovenia
- Solomon Islands
- Somalia
- South Africa
- South Georgia and the South Sandwich Islands
- South Korea
- South Sudan
- Spain
- Sri Lanka
- Sudan
- Suriname
- Svalbard and Jan Mayen
- Sweden

- Bonaire Saint Eustatius and Saba
- Bosnia and Herzegovina
- Botswana
- Bouvet Island
- Brazil
- British Indian Ocean Territory
- British Virgin Islands
- Brunei
- Bulgaria
- Burkina Faso
- Burundi
- Cambodia
- Cameroon
- Canada
- Cape Verde
- Cayman Islands
- Central African Republic
- Chad
- Chile
- China
- Christmas Island
- Clipperton
- Guadeloupe
- Guam
- Guatemala
- Guernsey
- Guinea
- Guinea-Bissau
- Guyana
- Haiti
- Heard Island and McDonald Islands
- Honduras
- Hong Kong
- Hungary
- Iceland
- India
- Indonesia
- Iran
- Iraq
- Ireland
- Isle of Man
- Israel
- Italy
- Jamaica
- Nauru
- Nepal
- Netherlands
- New Caledonia
- New Zealand
- Nicaragua
- Niger
- Nigeria
- Niue
- Norfolk Island
- Northern Mariana Islands
- North Korea
- North Macedonia
- Norway
- Oman
- Pakistan
- Palau
- Palestine
- Panama
- Papua New Guinea
- Paraguay
- Peru
- Switzerland
- Syria
- Taiwan
- Tajikistan
- Tanzania
- Thailand
- The Gambia
- Timor-Leste
- Togo
- Tokelau
- Tonga
- Trinidad and Tobago
- Tunisia
- Turkey
- Turkmenistan
- Turks and Caicos Islands
- Tuvalu
- Uganda
- Ukraine
- United Arab Emirates
- United Kingdom
- United States

- Cocos (Keeling) Islands
- Colombia
- Comoros
- Congo
- Cook Islands
- Costa Rica
- Côte d'Ivoire
- Croatia
- Cuba
- Curaçao
- Cyprus
- Czechia
- Democratic Republic of the Congo
- Denmark
- Japan
- Jersey
- Jordan
- Kazakhstan
- Kenya
- Kiribati
- Kosovo
- Kuwait
- Kyrgyzstan
- Laos
- Latvia
- Lebanon
- Lesotho
- Liberia
- Philippines
- Pitcairn Islands
- Poland
- Portugal
- Puerto Rico
- Qatar
- Réunion
- Romania
- Russia
- Rwanda
- Saint Barthélemy
- Saint Helena
- Ascension and Tristan da Cunha
- Saint Kitts and Nevis
- Saint Lucia
- United States Minor Outlying Islands
- Uruguay
- US Virgin Islands
- Uzbekistan
- Vanuatu
- Vatican City
- Venezuela
- Vietnam
- Wallis and Futuna
- Western Sahara
- Yemen
- Zambia
- Zimbabwe

* Field of activity or sector (if applicable)

- ESG rating provider
- Auditing
- Banking
- Credit rating agency
- Insurance
- Pension provision
- Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- Social entrepreneurship
- Listed companies
- SME

- Benchmark administrator
- Other financial services (e.g. advice, brokerage)
- Trade repositories
- Organisation representing consumers' interests
- Supervisory authority
- Other
- Not applicable

*** Role in the ESG rating / Credit rating market**

Please select as many answers as you like

- ESG rating provider
- User of ESG ratings (investor)
- User of ESG ratings (company)
- User of ESG ratings (other)
- Credit rating agency
- User of credit ratings
- Rated (as a company)
- Auditor
- Supervisor
- Other

The Commission will publish all contributions to this targeted consultation. You can choose whether you would prefer to have your details published or to remain anonymous when your contribution is published. **For the purpose of transparency, the type of respondent (for example, 'business association, 'consumer association', 'EU citizen') is always published. Your e-mail address will never be published.** Opt in to select the privacy option that best suits you. Privacy options default based on the type of respondent selected

*** Contribution publication privacy settings**

The Commission will publish the responses to this public consultation. You can choose whether you would like your details to be made public or to remain anonymous.

Anonymous

Only the organisation type is published: The type of respondent that you responded to this consultation as, your field of activity and your contribution will be published as received. The name of the organisation on whose behalf you reply as well as its transparency number, its size, its country of origin and your name will not be published. Please do not include any personal data in the contribution itself if you want to remain anonymous.

Public

Organisation details and respondent details are published: The type of respondent that you responded to this consultation as, the name of the organisation on whose behalf you reply as well as its transparency number, its size, its country of origin and your contribution will be published. Your name will also be published.

I agree with the [personal data protection provisions](#)

Part A – ESG Ratings

Background information

ESG ratings are used by a wide variety of investors as part of their sustainable investment strategy to take into account risks and opportunities linked to ESG issues. Consequently, these ratings have an increasingly important impact on the operation of capital markets and on confidence of investors in sustainable financial products. For the purposes of this consultation the term ESG ratings is based on the definition provided in the [International Organization of Securities Commissions' \(IOSCO\) final report on environmental, social and governance \(ESG\) ratings and data products providers](#).

ESG ratings: refer to the broad spectrum of ratings products that are marketed as providing an opinion regarding an entity, a financial instrument or a product, a company's ESG profile or characteristics or exposure to ESG, climatic environmental risks or impact on society and the environment that are issued using a defined ranking system of rating categories, whether or not these are explicitly labelled as "ESG ratings".

Due to the importance and growth of this market, and potential issues identified as to its functioning, in the [action plan on sustainable finance](#), published in March 2018, the Commission announced a study to be conducted to dig further into the specifics of this market.

The [study on sustainability-related ratings, data and research](#) ('the study') was published in January 2021. The study identified a number of issues pertaining to the functioning of the market of ESG ratings providers, in particular on transparency around data sourcing and methodologies, as only few firms disclose the underlying indicators or their actual weights of their assessment. The study also highlighted issues in terms of timeliness, accuracy and reliability of ESG ratings. Another issue identified related to biases, based on the size and location of the companies. Finally, it highlighted potential conflicts of interest associated with certain aspects of their work, including where providers both assess companies and offer paid advisory services or charge companies to see their own reports.

As part of the [consultation on the renewed sustainable finance strategy](#), which took place in early 2021, the Commission asked stakeholders about their views on the quality and relevance of ESG ratings for their investment decisions, on the level of concentration in the market for ESG ratings and need for action at EU level. This confirmed the conclusions of the study, Stakeholders indicated that better comparability and increased reliability of ESG ratings would enhance the efficiency of this fast growing market, thereby facilitating progress towards the objectives of the [EU green deal](#).

This consultation will directly feed into an impact assessment that the Commission will prepare in the year 2022 in order to assess in detail the impacts, costs and options of a possible EU intervention. This consultation should help further clarifying and quantifying the main findings from the study and input received from market participants.

On 3 February 2022, the [European Securities and Markets Authority \(ESMA\) published a call for evidence](#), complementary to this consultation, in order to support the exercise and provide a mapping of ESG rating providers operating in the EU. The call for evidence also looks at possible costs of supervision would these providers become subject to some supervision.

Subject to the result of this impact assessment, the Commission would propose an initiative to foster the reliability, trust and comparability of ESG ratings by early 2023.

This consultation also seeks views from market participants on the use of other types of tools that can be offered by sustainability-related providers, including research, controversy alerts, rankings, etc.

I. Use of ESG ratings and dynamics of the market

The study identified a rapid growth in global assets committed to sustainable and responsible investment strategies over the last decade, which is forecast to continue as sustainable investing becomes fully integrated into asset management.

This leads to higher demand by investors for ESG ratings to help them decide on particular investment strategies.

The study identified two key trends over the past five years - being consolidation and reinforcement of the established ESG ratings providers, and growth in the overall number of providers due to new market entrants.

The study also highlighted that it is challenging for new market entrants to replicate and compete with the larger providers due to high initial level of investment needed to cover a broad range of ESG issues, with as many as a thousand data points, across thousands of companies.

Questions for investors, asset managers and benchmark administrators

Do you use ESG ratings?

- Yes, very much
- Yes, a little
- No
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Which type of ESG ratings do you use?

ESG ratings providing an opinion on companies:

Please select as many answers as you like

- ESG ratings providing an opinion on opportunities
- ESG ratings providing an opinion on the compliance of companies with frameworks and rules
- Exposure to and management of ESG risks
- ESG ratings providing an opinion on a company performance towards certain objectives
- ESG ratings providing an opinion on the impact of companies on the society and environment
- ESG ratings providing an opinion on the ESG profile of the company
- Other

ESG ratings providing an opinion on:

Please select as many answers as you like

- investment funds
- other financial products

To what degree do you use ESG ratings in investment or other financing decisions on the a scale of from 1 to 10?

(1 = very little, 10 = decisive)

- 1 - very little
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9

- 10 - decisive
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Do you use overall ESG ratings or ratings of individual Environmental, Social or Governance factors?

- Overall ESG ratings
- Ratings of an individual Environmental, Social and Governance factors
- Ratings of specific elements within the Environmental, Social and Governance factors,
- Other types
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Do you buy ESG ratings as a part of a larger package of services?

- Yes
- No
- Don't know / no opinion / not applicable

If you responded yes to the previous question, do you consider that buying ESG ratings as a part of a larger package would give rise to potential conflicts of interests?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

What are you using ESG ratings for?

Please select as many answers as you like

- as a starting point for internal analysis
- as one of many sources of information that influence the investment decisions
- to meet regulatory or reporting requirements
- as a decisive input into an investment decision
- as a reference in financial contracts and collaterals
- for risk management purposes
- other(s)

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

As a benchmark administrator, how do you take into account ESG ratings for the construction of a benchmark and/or in disclosures around a benchmark?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Do you refer to ESG ratings in any public documents or materials?

- Yes
 - No
 - Don't know / no opinion / not applicable
-

What do you value and need most in ESG ratings?

Please select as many answers as you like

- transparency in data sourcing and methodologies
- timeliness, accuracy and reliability of ESG ratings
- final score of individual factors
- aggregated score of all factors
- rating report explaining the final score or aggregated score
- specific information, please explain
- data accompanying rating
- other aspects

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

To what degree to you consider the ESG ratings market to be competitive and allows for choice of ESG rating providers at reasonable costs?

(1 = not competitive, 10 = very competitive)

- 1 - not competitive
- 2
- 3
- 4
- 5
- 6
-

- 7
- 8
- 9
- 10 - very competitive
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Questions for companies subject to ratings

Do you have access to ESG ratings of your own company?

- Yes
- No
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

ESG Index providers such as FTSE Russell publish the score together with the decision or not to include the company or not in the index. Some ESG rating agencies, like Sustainalytics, make the final report accessible for the company on the agency's website. In other cases, like for Moody's ESG Solutions, the company receives, free of charge, the global ESG score as well as qualitative appreciations. The full report with detailed ESG scores can be obtained against a fee. Solicited ratings are possible, against fees, upon demand by the company.

To what degree do you use ESG ratings to assess the way you manage sustainability risks and opportunities and your impact on the outside world?

(1 = not determinant, 10 = very determinant)

- 1 - not determinant
-

- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10 - determinant
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Companies use the concept of materiality to guide their sustainability strategies and actions. To assess their impact on the outside world, they usually conduct a materiality assessment, relying either on their own sustainability teams or external consultants. The process includes establishing a list of possible themes and impacts and interviewing key stakeholders such as employees, business relationships, consumers, NGOs, shareholders, scientists etc. to collect feedback on these key ESG issues. The materiality matrix allows them to map and prioritise impacts they need to focus on, and to develop the appropriate strategy and action plans, including qualitative and quantitative targets and metrics which are then reported on in the sustainability reports.

To assess sustainability risks for the company, there is a close cooperation between sustainability, legal and risk management teams to identify risks, assess them and determine the appropriate mitigation actions. Sustainability risks are increasingly integrated into mainstream risk management, due to the fact that EU legislation requires companies to disclose sustainability related risks in their management reports. The assessment of the management of sustainability risks follows the same process than for other risks and is included in the overall assessment of the effectiveness of internal control and risks management systems. Also, more and more investors and shareholders ask direct questions on sustainability related risks, especially with regard to climate change, making the management of these risks pivotal.

In addition to regulatory requirements, companies also participate in initiatives such as SBTi to reduce their emissions in line with climate science or the Global Living Wage Coalition for estimating living wages globally, using a transparent, internationally comparable but locally specific methodology.

Companies may also perform industry benchmarks by looking at annual reports from peer companies to identify material issues and impacts, allowing them to compare themselves with their competitors.

If you do not use ratings, what do you use to assess the way you manage sustainability risks and opportunities and your impact on the outside world?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Does this vary between individual E, S and G factors?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Yes.

Due to market pressure, as well as scientific and political consensus on the urgency to mitigate and fight climate change, information related to greenhouse gas emissions is well documented and increasingly in the focus of specialized data and service providers. Other issues, like social factors, are more difficult to apprehend due to the subjectivity of the topic and the limited objectivity of “absolute” figures. Social practices and objectives vary substantially between different countries and need to be considered in a pragmatic, progressive and differentiated approach, taking into account the specificities of each sector.

Do you provide information on ESG ratings you have received in any of your public documents?

- Yes
- No
- Don't know / no opinion / not applicable

If you do provide information on ESG ratings you have received in any of your public documents, please specify where you disclose this information:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Several companies include the information on ESG ratings in their management reports, particularly in the non-financial performance declaration, which is part of the management report.

Some rating agencies also make ESG ratings publicly available, such as CDP, S&P DJSI, Sustainalytics, and a consolidated ESG Score is published by the CSRHub.

Questions for all respondents

Do you consider that the market of ESG ratings will continue to grow?

- Yes
- No
- Don't know / no opinion / not applicable

If you responded ‘yes’ to the previous question, to what extent do you expect the following factors to be decisive, on a scale from 1 to 10?

(1 = not at all, 10 = very much)

	1	2	3	4	5	6	7	8	9	10
Growth in demand from investors in ratings of companies for their investment decisions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Growth in demand from companies in ratings including on rating future strategies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Further standardisation of information disclosed by companies and other market participants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

Please specify what other reason(s) you see for this market to continue to grow:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Due diligence obligations on supply chains will increase the demand for ratings and assessments of suppliers and sub-contractors to identify and mitigate risks related to business relationships. Companies and investors will increasingly search high quality information easily accessible through open ESG data bases.

Also, more and more lenders require third party oversight in the structuring of sustainable financing products such as green loans, focusing on very specific ESG performance criteria.

This trend is confirmed by the (actual and future) implementation of regulatory obligations (such as Sustainable Financial Disclosure Regulation; Disclosure and Benchmark Regulation).

Are you considering to use more ESG ratings in the future?

- Yes, to a large degree
- Yes, to some degree
- No
- Don't know / no opinion / not applicable

If you responded 'yes' to the previous question, please explain why:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

As investor interest in ESG ratings increases and will continue to do so, companies are also likely to use more ESG ratings, or other ESG related services, for several reasons:

- to monitor trends and identify performance gaps;
- to select, filter and engage with suppliers (supply chain due diligence);
- to assess risks and the ESG maturity of a new acquisition (M&A) or of a project;
- to benchmark with competitors;
- to adapt strategies and action plans according to expectations reflected in international ratings.

Do you mostly use ESG ratings from bigger or larger market players?

- Exclusively from large market players
- Mostly from larger market players
- Mixed
- Mostly from smaller market players
- Exclusively from smaller market players
- Don't know / no opinion / not applicable

If you use mostly or exclusively ratings from large ESG rating providers, what are the main reasons for this?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Companies tend to look at the ESG ratings used by their investors in order to verify the relevance and quality of these ratings. Some of EuropeanIssuers' members companies' (particularly the largest ones) investors are international, using ratings from the larger market players. However, for their internal needs, companies may also turn to smaller market players, offering services or products tailored to their specific needs (for example B-Corp or IMPAK). In addition, is shared among our membership that ESG rating may play a

positive role in giving input and highlights in areas for improvement. In this respect, one of the most important issues is then the quality and reliability of ESG ratings, which should be able to appropriately represent the effort and commitment of companies in ESG activities.

Do you consider there is a sufficient offer of ESG ratings from providers located in the European Union?

- Yes
- No
- Don't know / no opinion / not applicable

If you responded 'no' to the previous question, please explain why:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The ESG ratings landscape has been transformed in recent years by the entry of established financial information providers such as S&P Global, ISS, Moody's, MSCI and Morningstar who acquired many European ESG rating agencies such as Vigeo-Eiris, Oekom or Sustainalytics. Although the very first ESG rating agency in history was French, and although some European ESG rating agencies still exist, such as Scope or Qivalio/Ethifinance, their number is now outweighed by their US competitors. According to ERM estimates published its study for the Commission in November 2020, only 30 to 40 sustainability-related rating or data providers are domiciled in the EU out of a total of approximately 150. Companies think that it is important to avoid an oligopolistic situation in the ESG market and call for measures which allow for new players to enter the market without too high barriers.

Finally, do you use other types of ESG assessment tools than ESG ratings (e.g. controversy screening, rankings, qualitative assessments, etc.)?

- Yes
- No
- Don't know / no opinion / not applicable

If you responded 'yes' to the previous question, how important are these tools in relation to the implementation of your investment strategies and engagement policies?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Companies use other assessment tools such as internal KPIs; SBTi; B-Corp ; Living wages ; controversy screening; etc. Again, it needs to be underlined that ESG ratings are not the only element characterizing the growth of ESG related services market. New products and services related to ESG data constantly emerge and need to be included in the Commission's impact assessment.

Do you believe that due diligences carried out by users of ESG research are sufficient to ensure an acceptable level of quality?

- Yes
- No
- Don't know / no opinion / not applicable

If you replied 'no' to the previous question, would you see merit in refining the current definition of research under [Directive 2014/65/EU](#)?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Due diligence carried out by users of ESG research is certainly not sufficient to address shortcomings linked to ESG ratings. Indeed, users may be much smaller than the ESG rating agencies and have therefore little leverage to obtain improvements of their processes, methodologies or disclosures.

Issuers do not think that changing the current definition of "research" under MiFID 2 will be able to tackle the difficulties they have identified concerning ESG ratings. The concept of research in MiFID 2 is used to address issues related to inducement and conflicts of interests of investment services providers. Thus MiFID does not seem the appropriate legislative lever to resolve the lack of regulation and supervision of ESG rating agencies.

Do you further believe that ESG research products have reached a sufficient level of maturity and comparability to allow users to fully understand the products they use?

5000 character(s) maximum

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ESG rating agencies have clearly not reached a sufficient level of maturity and comparability. As methodological choices are not sufficiently disclosed, investors are not in a position to make truly informed decisions, making it necessary for them to compare several ESG ratings and conduct their own research in parallel, often using raw ESG data. The fact that ESG rating agencies sometimes reach opposite conclusions in certain categories regarding one and the same company necessarily leads to uncertainty and confusion about ESG in general, and ESG performance of specific companies in particular.

The lack of convergence and comparability of ESG ratings also depends on a lack of clarity and alignment of definitions, including what is non-financial or ESG as well as on what ratings or data products intend to measure. Providing common definitions, which should be as much as possible aligned with the current EU legislation on sustainability (i.e., Taxonomy Regulation), could be a solution.

Companies acknowledge that ESG rating is constantly evolving and that innovation in this field must remain possible. Therefore, they do not necessarily ask for a standardisation of methodologies, except where this is justified and possible, such as for example on the calculation of CO² emissions in certain sectors. However, they call for a better prevention of conflicts of interest and an increased transparency and quality of ratings.

Indeed, companies spend a lot of time correcting ESG data collected by artificial intelligence or explaining

why certain questions are not relevant for their activity, where it would be more appropriate and necessary to have experienced analysts assess their performance taking into account material elements.

II. Functioning of the ESG ratings market

The study identified several issues on the functioning of the ESG ratings market that may hamper its further development.

In particular, there is an overall demand for greater transparency of objectives sought, methodologies adopted and quality assurance processes in place ESG rating providers.

The timeliness, accuracy and reliability of the output from ESG ratings providers were also identified as issues for the good functioning of this market.

Another issue identified in the study concerns the existence of biases and low correlation across ESG ratings.

The potential for conflicts of interest, particularly associated with providers both evaluating companies and offering paid advisory services, was further highlighted. The study stressed that providers selling multiple products require an appropriate separation between departments to avoid potential conflicts of interest.

This section aims to inform on the functioning of the ESG ratings market and potential issues that hamper its development and trust by market participants.

How do you consider that the market of ESG ratings is functioning today?

- Well
- Not well
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Currently, the industry of ESG rating and service providers is varied and fragmented in terms of size, business model, scope of activity, geographical seat and nature (commercial or non-profit) and they offer a wide and diverse range of products and services: i.e., provision of raw ESG data as well as production of scores/ratings and analysis assessing the non-financial performance of companies; sometimes, also activities such as portfolio analysis, construction of financial indices, advisory services to companies in defining their ESG strategy (see AMF Study on Provision of Non—Financial Data: Mapping of Stakeholders, Products and Services, December 2020).

In this undefined industrial landscape, we see several risks for the quality and reliability of ratings, mostly due to the lack of convergence and comparability of non-financial ratings, which depends also on a lack of clarity and alignment on definitions, including on what is non-financial or ESG as well as on what ratings or data products intend to measure.

In addition, companies face an important workload resulting from numerous questionnaires on their ESG policies. Each ESG rating agency has its own evaluation methodologies, which are not always sufficiently transparent, making it difficult for companies (and other stakeholders, including investors) to understand the conclusions these agencies reach on ESG performances. Indicators are not always defined, and the

expected performance is not disclosed so that companies struggle to understand what is precisely expected from them.

The overall lack of convergence between ESG ratings and their likely impact on investment decisions require, from EuropeanIssuers' perspective, the consideration of EU minimum transparency requirements on ESG rating agencies.

To what degree do you consider that the following shortcomings / problems exist in the ESG ratings market, on a scale of from 1 to 10?

(1 = very little, 10 = important)

	1	2	3	4	5	6	7	8	9	10	Rank of agencies
Lack of transparency on the operations of the providers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	
Lack of transparency on the methodologies used by the providers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	
Lack of clear explanation of what individual ESG ratings measure	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	
Lack of common definition of ESG ratings	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	
Variety of terminologies											

used for the same products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Lack of comparability between the products offered	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Lack of reliability of the ratings	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Potential conflicts of interests	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Lack of supervision and enforcement over the functioning of this market	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

If you responded ‘other’ to the previous question, please explain which ones:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Lack of standardization of the indicators which are measured.

What do you think of the quality of the ratings offered, on a scale from 1 to

1 0 ?

(1 = very poor, 10 = very good)

- 1 - very poor
- 2
- 3

- 4
- 5
- 6
- 7
- 8
- 9
- 10 - very good
- Don't know / no opinion / not applicable

Please explain why:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

In their research “Aggregate Confusion: The Divergence of ESG Ratings” published in August, 2019, Florian Berg, Julian F. Koelbel and Roberto Rigobon clearly demonstrate the following key points :

- The correlations between ESG ratings are on average 0.61 and range from 0.42 to 0.73 (for comparison, financial ratings between S&Ps and Moody’s are correlated at 0.99).
- The average correlation for the environmental level of aggregation is 0.65, for social 0.49 and for governance 0.38.
- Out of more than 900 companies rated by all agencies covered by their research, the agencies agree on only 15 companies to be among their top 20% and only 23 companies to be among their bottom 20%.
- In some categories (for example on responsible marketing), the disagreement is so severe that the rating agencies reach opposite conclusions.

The divergence of ESG ratings does not necessarily mean that their quality is poor, but it proves that there is no clarity on what precisely is being measured and how it is weighed. In short, it reflects the divergence of views of what is expected from a “sustainable” company. Under these circumstances, it is very difficult for companies to benefit from ESG ratings and for investors to rely on them.

High quality ESG ratings ideally give companies feedback about how their ESG policies and performances are perceived and in which areas there is still room for improvement. If companies do not understand the way ratings are elaborated and on which precise criteria they are based, the ratings will have little added value despite the investment of time and resources mobilised by the company to respond to questionnaires.

Also, there are considerable risks of misleading investors, for example when companies are assessed on their scope 3 of GHG emissions, the latter are variously calculated and assessed, or when ratings are based on estimates.

Finally, issuers regret that the final score or report often depends on the time the company invests in answering the questionnaire and / or correcting the data that has already been collected. If the company does not take this time, the score or report will often be less positive. Given the large number of requests and raters, companies cannot spend equivalent resources to respond to all questionnaires, which necessarily creates a bias. Today, the only way to eliminate this bias is to spend a significant amount of time responding to all questionnaires which is materially often impossible.

Do you consider that there are any significant biases with the methodology used by the providers?

- Yes
- No
- Don't know / no opinion / not applicable

If you responded yes to the previous question, please specify the biases:

- Biases based on the size of the company rated
- Biases based on the location of the company
- Other biases
- Don't know / no opinion / not applicable

If you responded 'other biases' to the previous question, please explain which ones:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

There are numerous biases in ESG ratings' methodologies as the research by F. Berg et al. shows. From a company's perspective, ESG ratings suffer from the lack of transparency as regards these methodological biases and choices. Depending on the rater's view on issues such as nuclear energy, equality or employee development, they may reach entirely different conclusions.

In addition, European companies have noticed on numerous occasions a bias resulting from the North American view on ESG issues. ESG is also about values and convictions of what constitutes responsible business conduct. Specific features of national legislation are not always sufficiently considered in ESG ratings.

With regard to sector-based aspects, the situation is not satisfactory either (with some exceptions). The questions are sometimes written for a business sector generally, without considering the specific nature of the activities of certain groups. A more detailed analysis, notably according to activity, is essential to ensure that the rating is relevant.

Therefore, companies should have the possibility to explain why the answer to a particular question cannot be given or why the company complies with a particular standard. Some ESG rating agencies offer this functionality. Also, once the rating is published, companies call for an obligation to publish their comments on why certain points of the ratings are not based on relevant or correct data.

Do you think the current level of correlation between ratings assessing the same sustainability aspects is adequate?

- Yes
- No
-

Don't know / no opinion / not applicable

Please explain your answer to question 1:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

To what degree do you consider that a low level of correlation between various types of ESG ratings can cause problems for your business and investment decision, as an investor or a rated company, on a scale from 1 to 10 ?

(1 = no problem, 10 = significant problem)

- 1 - no problem
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10 - significant problem
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The main issue doesn't rely on the fact that there is divergence of and low level of correlation between ESG ratings that is problematic, but on the fact that the reasons for this divergence are not clear. Depending on what agencies measure, how they define it and then how they weigh it, it is normal that ESG ratings will reach different conclusions. The fact that neither investors, nor companies have the possibility to fully

understand how these conclusions were reached and on which grounds they are based, leads to confusion and uncertainty. As a result, companies will face many more questions from investors who will try to understand why certain ratings are low and ask the companies to provide explanations.

How much do you consider each of the following to be an issue, on a scale from 1 to 10 ?

(1 = no issue, 10 = very significant issue)

	1	2	3	4	5	6	7	8	9	10	Don't know
There is a lack of transparency on the methodology and objectives of the respective ratings	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	
The providers do not communicate and disclose the relevant underlying information	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	
The providers use very different methodologies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
ESG ratings have different objectives (they assess	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	

different sustainability aspects)										
Other issue(s)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Do you consider that a variety of types of ESG ratings (assessing different sustainability aspects) is a positive or negative feature of the market?

- Rather positive
- Rather negative
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Sustainability ratings and research are fast changing and continuously adapting to new trends. Some measure the company's resilience to long-term, financially relevant ESG risks. Others evaluate a company's integration of ESG factors into their strategies, operations and management. Others measure a companies' ESG impacts. Some issue a score that is comparable across all industries (absolute risk assessment) while others issue a score that is relative to a group of peers.

There is a multitude of different products and services, which may be useful for different players : raw data, ratings, rankings providers; screening services; controversy alerts and screenings; benchmarks; impact solutions, corporate physical climate risk scores, corporate transition risk scores, disclosure quality scores, SDG assessments... Again, the variety as such is positive. It is the lack of transparency and standardised metrics, the conflicts of interest and the processes involving issuers that are problematic.

To what degree do you consider this market to be prone to potential conflicts of interests on a scale from 1 to 10?

(1 = very little, 10 = very much)

- 1 - very little
- 2
- 3
- 4
- 5
- 6
- 7

- 8
- 9
- 10 - very much
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Some agencies offer companies paid consulting services, whether directly or indirectly via third parties recommended by them. These practices are perceived by companies as sources of potential or actual conflicts of interest. For example, with CDP, the company can directly contact CDP's dedicated support service (CDP Reporter Services) or its accredited solutions providers dedicated to help the company obtain better scores against fees. Often companies need to pay for a detailed rating report allowing it to understand its score and identify the areas for improvement.

If you consider that this market is very much prone to conflicts of interests, where do you see the main risks?

Please select as many answers as you like

- Where providers both assess companies and offer paid advisory services
- Where providers charge companies to see their own reports
- In the absence of separation of sales and analytical teams
- With the ownership system of some providers, where the parent company may exert undue pressure or influence on the research and recommendations that a ratings provider offers
- In the lack of public disclosure of the management of potential conflicts of interest
- Other conflict(s) of interest

To what degree do you consider that the ESG ratings market as it operates today allows for smaller providers to enter the market on a scale from 1 to 10?

(1 = hard to enter, 10 = easy to enter)

- 1 - hard to enter
- 2
- 3
- 4

- 5
- 6
- 7
- 8
- 9
- 10 - easy to enter
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

According to the 2021 IOSCO report on ESG ratings, 85% to 100% of service provider revenues come from users (“subscriber pays model”), which encourages providers to prioritize quantity over quality, as they are under pressure from investors who demand the widest possible coverage of sectors and regions, even when the underlying data is insufficient or absent. The necessary investments for smaller providers who want to enter the market are therefore very high because they would need to cover an equally large coverage, recurring to machine learning and artificial intelligence.

What barriers do you see for smaller providers?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Do you consider that the market currently allows for smaller providers who are already present in this market to remain competitive on a scale from 1 to 10 ?

(1 = does not allow, 10 = fully allows)

- 1 - does not allow
- 2
- 3
- 4
- 5

- 6
- 7
- 8
- 9
- 10 - fully allows
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

To what degree do you consider the fees charged for ESG ratings to be proportionate to the services provided, on a scale from 1 to 10?

(1 = not proportionate, 10 = very proportionate)

- 1 - not proportionate
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10 - very proportionate
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Corporates usually do not pay for ESG ratings as the investor pays model is predominant. However, they often pay participation fees (for example for CDP, Ecovadis) or fees to be able to use the rating or logo in external communications or to obtain a detailed rating report (DJSI, Moody's ESG Solutions). Taken all together, these fees can amount to significant sums.

Do you consider that information on the fees charged by the providers is sufficiently transparent and clear?

- Yes
- No
- Don't know / no opinion / not applicable

III. Questions on the need for EU intervention

In light of the current situation and recent developments of the ESG ratings markets, and the potential issues affecting it, this section aims to gather stakeholder views on the need and type of a possible intervention at EU level.

a) Need for an EU intervention

Taking into account your responses to the previous sections, do you consider that there is a need for an intervention at EU level to remedy the issues identified on the ESG rating market?

- Yes
- No
- Don't know / no opinion / not applicable

Please explain why:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The importance of ESG data and ratings will continue to grow and only a European mandatory legal framework will allow for a rapid improvement of practices. Companies have called for increased transparency and a better dialogue between ESG rating agencies and companies for years, and while some players have shown their good will to improve their practices, others have not. Considering the strategic importance of ESG data and ratings in the EU's sustainable finance action plan, no time should be lost with non-binding recommendations.

The fact that ESG rating agencies sometimes reach opposite conclusions in certain categories regarding one and the same company necessarily leads to uncertainty and confusion about ESG in general, and ESG performance of specific companies in particular. The overall lack of convergence between ESG ratings and their likely impact on investment decisions conduct EuropeanIssuers members to consider that the EU

Commission should impose substantial requirements and a system of registration and supervision of ESG ratings and data providers by ESMA. Companies underlined once again that ESG data in general needs to be included in the scope of the Regulation because many services and products linked to ESG data and research are equally relevant in the decision-making process of investors.

If you responded yes to the previous question, what type of intervention would you consider necessary?

- Non-regulatory intervention (e.g. guidelines, code of conduct)
- Legislative intervention
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

If you responded yes to the previous question, what do you consider should be the prime focus of the intervention?

Please select as many answers as you like

- Improving transparency on the operations of the providers
- Improving transparency on the methodology used by the providers
- Improving the reliability and comparability of ratings
- Clarifying what is meant by and captured by ESG ratings, to differentiate from other tools and services
- Clarifying objectives of different types of ESG ratings
- Improving transparency on the fees charged by the providers
- Avoiding potential conflicts of interests
- Providing some supervision on the operations of these providers
- Other measures

Please explain what solutions and options you would consider appropriate in order to improve transparency on the operations of the providers:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

There is a need to bring ESG ratings within the regulatory perimeter to improve their reliability and accuracy, taking inspiration from the existing CRAs legislation. The best option would be to follow a gradual approach to regulation, combining voluntary best practice guidance for ESG ratings agencies and binding, principle-based regulation as to disclosure requirements, and focusing primarily on common definitions, supervision and governance, methodology transparency and prevention/ management of conflicts of interest. As already stated, given the comprehensive requirements that already apply to CRAs, developing specific legislation for ESG rating providers may be accomplished by drawing from the already existing regime.

In terms of content, legislation should introduce a risk-based supervision by competent authorities. It should also address governance concerns by requiring ESG rating providers at least to disclose their internal organization and at least to follow equivalent standards as CRAs. Oversight of ESG ratings activities should extend to transparency and conflicts of interest. Methodology transparency should also be ensured by requiring ESG rating providers to issue transparency reports detailing rating methodology and the process for developing and reviewing it, and sources of information to ensure their assessment is reliable and verifiable. Indeed, ESG rating providers should disclose, in their code of conduct, the policies and procedures that apply to the collection and verification of the data they use.

As regards conflicts of interest prevention and management, it could be inspired by existing CRA regulatory principles, complemented, whenever necessary, by more detailed requirements.

Overall, EuropeanIssuers is of the opinion that the Commission should envisage legislative measures which as a baseline should/could include the obligation for ESG rating providers to publicly disclose on an annual basis a transparency report addressing issues such as independence, prevention and management of conflict of interest, methodology, qualification of the analysts, sources of information, interaction with companies, fees.

Nevertheless, EuropeanIssuers notes that it is important to strike a balance between a strict oversight regime and innovation-friendly framework. Too strict rules could result in market concentration of ESG rating, which may disadvantage issuers in terms of market power. A regime that is too light, on the other hand, could reduce quality in the rating market because, for example, no minimum standards for transparency apply.

Please explain what solutions and options you would consider appropriate in order to improve transparency on the methodology used by the providers:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Please explain what solutions and options you would consider appropriate in order to improve the reliability and comparability of ratings:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Please explain what solutions and options you would consider appropriate in order to clarify what is meant by and captured by ESG ratings, to differentiate from other tools and services:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Please explain what solutions and options you would consider appropriate in order to clarify objectives of different types of ESG ratings:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Please explain what solutions and options you would consider appropriate in order to improve transparency on the fees charged by the providers:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Please explain what solutions and options you would consider appropriate in order to avoid potential conflicts of interests:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Please explain what solutions and options you would consider appropriate in order to provide some supervision on the operations of these providers:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Do you consider that the providers should be subject to an authorisation or registration system in order to offer their services in the EU?

- Yes
- No
- Don't know / no opinion / not applicable

Please explain why:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Do you consider that the providers should be subject to an authorisation or registration system in order to provide ESG ratings on EU companies or non-EU companies' financial instruments listed in the EU even if they offer services to global or non-EU investors?

- Yes
- No
- Don't know / no opinion / not applicable

Please explain why:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Do you consider that there should be some minimum disclosure requirements in relation to methodologies used by ESG rating providers?

- Yes
- No
- Don't know / no opinion / not applicable

Please explain why:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

As explained above, the divergence in ESG ratings is caused by three main factors related to the methodology of the rating process, namely measurement, scope and weight. This means that only transparency of methodologies will allow investors and companies to understand the reasons underlying diverging ESG ratings.

Do you consider that the providers should be using standardised templates for disclosing information on their methodology?

- Yes
- No
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

A standardised format for disclosing methodologies will make comparisons much easier for companies and investors.

Do you consider that the rules should be tailored to the size of the provider and hence have smaller providers subject to a lighter regime?

- Yes
- No
-

Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Should the providers located outside of the EU, not providing services to the EU investors but providing ratings of the European companies/financial products be subject to a lighter regime?

- Yes
- No
- Don't know / no opinion / not applicable

b) Costs of an EU intervention

Questions for ESG rating providers

Assume that in order to offer services to investors in the European Union or to rate European companies/financial products, ESG rating providers would be subject to an authorisation or registration requirement.

How high would you estimate the one-off cost of applying for such an authorisation/registration?

Please provide an estimate in EUR:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

In order to increase transparency, there may be considerations to introduce disclosure obligations on ESG rating providers. This could include, for example, disclosures on websites or annual reports on the operations and methodologies used by ESG rating providers and/or providing more information on how these methodologies were applied to specific ratings.

Please estimate the number of hours needed to produce the following disclosures:

	One-off costs (total hours) for disclosures on the operations and methodologies	Ongoing costs (hours per week) for disclosures on the operations and methodologies	Additional disclosures in ratings (hours per rating)
Negligible			
Less than 5 hours (but not negligible)			
5 to 9 hours			
10 to 19 hours			
20 to 39 hours			
40 to 79 hours			
80 to 160 hours			

More than 160 hours

If you chose more than 160 hours in the table above, please provide an indication of how many hours would be needed (for the costs in each column, as applicable). You may also provide any further explanations:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

What percentage of these costs would be incurred even in the absence of legislation?

- 0%
- 1-20%
- 21%-40%
- 41%-60%
- 61%-80%
- 81%-100%
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Do you see any other costs related to providing these disclosures (e.g. adjustment of IT systems, external consultants, etc.)?

- Yes
- No
- Don't know / no opinion / not applicable

How many hours of work would you consider necessary to perform tasks that would be linked to granting an authorisation for one ESG rating provider?

- Negligible time
 - Less than 5 hours (but not negligible)
 - 5 to 9 hours
 - 10 to 19 hours
 - 20 to 40 hours
 - More than 40 hours
 - Don't know / no opinion / not applicable
-

If there were similar conflict of interest provisions introduced for ESG rating providers as in Article 6 and Annex I to [Regulation \(EU\) 1060/2009 \(CRA regulation\)](#), would you consider the associated costs to be of similar magnitude?

- Yes
- No
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Do you expect that you would face any further costs as an ESG rating provider as a result of a possible legal framework besides those mentioned above?

- Yes
- No
- Don't know / no opinion / not applicable

If yes, please explain what types of costs, whether they would be one-off or ongoing and provide estimates if possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Do you estimate that possible additional compliance costs implied by a minimum requirement framework for ESG ratings would be compensated by the benefits of higher quality and more reliable ratings?

- Not at all
- To some extent
- To a reasonable extent
- To a great extent
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

What other impact(s) of a regulatory and supervisory framework on the operations of ESG rating providers would you see (e.g. potential impacts on competition, SMEs assessed by ratings, users of ratings, sustainable development)?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Questions for supervisors

How many hours of work would you consider necessary to perform tasks that would be linked to granting an authorisation for one ESG rating provider?

- Negligible time
 - Less than 5 hours (but not negligible)
 - 5 to 9 hours
 - 10 to 19 hours
 - 20 to 40 hours
 - More than 40 hours
 - Don't know / no opinion / not applicable
-

How many hours per week would you consider necessary to perform supervisory tasks per ESG rating provider?

- Negligible time
- Less than 5 hours (but not negligible)
- 5 to 9 hours
- 10 to 19 hours
- More than 20 hours
- Don't know / no opinion / not applicable

PART B - Incorporation of ESG factors in credit ratings

The provision of credit ratings is highly regulated in the EU as well as globally. Global standards are established by the [IOSCO in its code of conduct for CRAs](#). The EU legal framework regulates the activities of CRAs with a view to protect investors and financial markets by guaranteeing the transparency, independence and integrity of the credit rating process – thereby enhancing the quality of ratings. All CRAs operating in the EU need to register with ESMA, which is the sole European supervisor. Credit ratings used for the purposes stemming from the EUvlegislation need to be provided by CRAs registered and supervised by ESMA. If a non-EU CRA wants its ratings to be used for regulatory requirements in the EU (i.e. by EU financial institutions), the [CRA Regulation](#) provides for two alternatives, certification or endorsement.

There are a number of EU regulatory requirements related to the use of credit ratings. , in particular, in the [Capital Requirements Regulation \(CRR\)](#) and in the [Solvency Capital Requirement \(SCR\)](#). The European Central Bank also makes extensive use of credit ratings in its open market operations.

Both EU legislation ([Regulation \(EU\) No 462/2013](#)) and the IOSCO code of conduct define precisely the objective of the credit rating: ‘credit rating means an opinion regarding the creditworthiness of an entity, a debt or financial obligation, debt security, preferred share or other financial instrument, or of an issuer of such a debt or financial obligation, debt security, preferred share or other financial instrument, issued using an established and defined ranking system of rating categories’.

In other words, credit ratings assess the likelihood of the default of the rated entity or security. Credit ratings reply to the question: “what is the likelihood of getting my money back?” They are neither investment recommendations nor they determine the value of the rated entity or instruments.

ESG risks may be relevant for the assessment of creditworthiness depending on the sector, geographical location and the entity itself. CRAs methodologies define which factors, including ESG factors, are considered to be relevant for the assessment of creditworthiness and how they are taken into account in the credit rating process. ESMA supervises the soundness of methodologies, which in accordance with the CRA Regulation need to be rigorous, systematic, continuous, based on historical experience and back-tested. In its Technical Advice provided to the Commission in 2019, ESMA concluded that while it is clear that CRAs are considering E, S or G factors in their credit ratings, the extent to which each factor is considered varies by asset class, according to the importance assigned to that factor by a CRA’s methodology. Currently, ESMA is conducting a thorough assessment of how CRA’s methodologies incorporate sustainability risks.

The CRA Regulation includes a number of disclosure obligations in relation to the methodologies as well as individual credit ratings. In 2019, [ESMA conducted a public consultation on disclosure requirements applicable to credit ratings](#). Following the finding on the insufficient transparency on the relevance of ESG factors to credit ratings, one of the topics of the consultation, [ESMA issued guidelines on disclosure requirements applicable to credit ratings](#).

These ESMA guidelines expect CRAs to identify in their press releases if ESG factors have been key drivers behind a change in the credit rating. CRAs are asked to identify relevant factors, elaborate on their materiality and provide a reference to the methodology or the associated model. The ESMA guidelines came into effect in April 2020.

A recent assessment of the application of the guidelines revealed that the improvement of transparency has been partial. ESMA has analysed press releases over the period January 2019 – December 2020 and compared the number of references to ESG considerations before and after April 2020. The main findings are that the improvement is partial and not uniform.

This consultation builds on the findings of ESMA and the consultation on renewed sustainable finance strategy.

I. Questions to users of credit ratings

Do you use credit ratings for investment decisions?

- Yes, as a starting point for internal analysis
 - Yes, as one of many sources of information that influence investment decisions
 - Yes, as a decisive input into an investment decision
 - No
 - Other
 - Don’t know / no opinion / not applicable
-

Do you use credit ratings for regulatory purposes (e.g. stemming from the [Capital Requirements Regulation](#) or [Solvency II](#))?

- Yes
- No
- These requirements don't apply to me
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Is it important for you to understand to what extent individual credit rating actions have been influenced by sustainability factors?

- Not important at all
- Slightly important
- Important
- Very important
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Do you find information about the extent to which CRAs methodologies or the rating process incorporate sustainability factors sufficiently well disclosed?

- Yes
-

No

Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Improvements have been realized by certain CRAs but there is still room for progress to have a standard and systematic approach allowing to have explanations in case of impact of sustainability factors on credit rating.

Where do you look currently for the information on how ESG factors impact the credit rating?

Please select as many answers as you like

- Press release accompanying credit ratings
- Additional analysis and reports available to subscribers
- Additional information materials available publicly
- Description of methodologies or rating process for specific asset classes, sectors or types of entities
- Frameworks or documents describing general approach to incorporation of ESG factors in credit rating process
- I don't know where to find such information
- Other

Does the level of disclosure differ depending on individual CRAs?

- Yes
- No
- Don't know / no opinion / not applicable

If you answered yes to the previous question, please explain the differences in the level of disclosure:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

What are the trends on the market in relation to disclosure of information as to which credit ratings actions have been influenced by sustainability factors?

Please select as many answers as you like

- The level of disclosure has improved sufficiently since the entry into effect of ESMA guidelines (April 2020)
- In general the level of disclosure has improved sufficiently although some CRAs are lagging behind
- The overall level of disclosure is insufficient although some CRAs have sufficiently improved

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The extent to which CRAs incorporate ESG factors in credit ratings depends on the asset classes methodologies and the importance assigned to the given factor by a CRA's methodology. In addition, some CRAs have developed overall frameworks explaining how they incorporate ESG factors in credit ratings across asset classes, some publish reports reviewing past credit rating actions or specific sections accompanying credit rating actions.

In your opinion, what are trends in the relation to the incorporation of ESG factors in the credit rating process and methodologies?

- CRAs have sufficiently improved the incorporation of ESG factors in their methodologies and rating process
- In general CRAs have sufficiently improved the incorporation of ESG factors in credit ratings although some CRAs are lagging behind
-

In general the development is insufficient although some CRAs have improved the incorporation of ESG factors in their methodologies and rating process

- CRAs have insufficiently improved the incorporation of ESG factors in their methodologies and rating process
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

II. Questions to Credit Rating Agencies

Do you explicitly incorporate ESG factors in your methodologies?

- Yes
- Yes, but only for asset classes and sectors where relevant
- Partially
- No
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Which individual E, S and G factors do you consider in your methodologies?

Please select as many answers as you like

- Environmental factors
- Social factors
-

Governance factors

- Other sustainability related factors

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

In addition to methodologies, do you have a framework or a document describing how you incorporate ESG factors in the credit rating process?

By framework, we mean any general approach to the incorporation of ESG factors in credit rating process, in addition to methodologies for asset classes and sectors:

- Yes
- No
- Other
- Don't know / no opinion / not applicable

Have you improved disclosure on ESG factors in credit ratings since April 2020 when ESMA guidelines became applicable?

- Yes
- Partially
- No, but we plan to improve
- No, because we have already been disclosing such information
- No
- Don't know / no opinion / not applicable

III. Questions on the need for EU intervention (all respondents)

Do you consider that the current trends in the market are sufficient to ensure that CRAs incorporate relevant ESG factors in credit ratings?

- Yes
 - No
 - Don't know / no opinion / not applicable
-

Do you consider that the current trends in the market and application of ESMA guidelines on disclosure applicable to CRAs are sufficient to ensure understanding among users as to how ESG factors influence credit ratings?

- Yes
- No
- Don't know / no opinion / not applicable

If you responded 'no' to the previous questions, what type of intervention would you consider necessary?

Please select as many answers as you like

- Further detailing of ESMA guidelines on the disclosure of ESG factors in credit ratings
- Further supervisory actions by ESMA
- Legislative intervention
- While improvements are insufficient, we do not see further scope for EU intervention
- Other

If you responded 'other' to the previous question, please specify the other type of intervention you consider necessary:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

ESMA's enforcement of the guidelines should be strengthened and monitored on a regular basis (enforcement of the guidelines could be included in the European Common Enforcement Priorities of ESMA for the next years in line with the authority's roadmap on sustainable finance and the objectives to tackle greenwashing and promoting transparency).

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Regarding the possible regulatory intervention, what type of requirements do you find relevant?

Please select as many answers as you like

- Press releases: introduce mandatory requirements mirroring the provision of ESMA guidance on the disclosure ESG factors in credit ratings
- Press releases: in addition to the previous option require CRAs to publish information not only about the impact of ESG factors on credit ratings, but also the lack of it
- Methodologies: require CRAs to explain the relevance of ESG factors in methodologies
- Methodologies: require CRAs to take into account ESG factors where relevant
- Other

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

What kind of risks or merits of the EU intervention do you see?

Please select as many answers as you like

- Provide further clarity on the impact of ESG factors on the creditworthiness of creditors and financial instruments
- More coherent approach of CRAs to the incorporation of ESG factors into credit ratings
- Concerns about too much prominence given to ESG factors
- Others

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

What would be the consequences of the lack of the EU intervention?

Please select as many answers as you like

- Market trends are sufficient to meet investors demands for information on the impact of ESG factors on credit ratings
- CRAs will respond to market pressure and ensure the incorporation of ESG factors in credit ratings
- The existing gap between approaches of CRAs to the incorporation of ESG factors in credit ratings will grow
- Concerns about the insufficient incorporation of ESG factors in credit ratings lack of understanding among investors why certain credit rating actions are not impacted by ESG factors

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Costs of EU intervention - questions for CRAs

Where applicable, what are your costs in EUR to disclose information based on the current guidelines on disclosure of ESG factors in credit ratings?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Would you foresee any additional compliance costs if the current guidelines on disclosure of ESG factors in credit ratings were to become part of the EU legislation?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

To what degree do CRAs overall already follow the guidelines in the absence of an obligation to do so?

- 0%
- 1-40%
- 41%-60%
- 61%-80%
- 81%-90%
- 91%-99%
- 100%
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Would you expect additional compliance costs if EU legislation explicitly required CRAs to take into account ESG factors where relevant in the rating process?

- No or negligible additional costs
- Low additional costs
- Moderate additional costs
- High additional costs
- Don't know / no opinion / not applicable

Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) below. **Please make sure you do not include any personal data in the file you upload if you want to remain anonymous.**

The maximum file size is 1 MB.

You can upload several files.

Only files of the type pdf,txt,doc,docx,odt,rtf are allowed

Useful links

[More on this consultation \(https://ec.europa.eu/info/publications/finance-consultations-2022-esg-ratings_en\)](https://ec.europa.eu/info/publications/finance-consultations-2022-esg-ratings_en)

[Consultation document \(https://ec.europa.eu/info/files/2021-esg-ratings-consultation-document_en\)](https://ec.europa.eu/info/files/2021-esg-ratings-consultation-document_en)

[Call for evidence accompanying this consultation \(https://ec.europa.eu/info/law/better-regulation/initiatives/plan-2021-12801_en\)](https://ec.europa.eu/info/law/better-regulation/initiatives/plan-2021-12801_en)

[More on EU labels for benchmarks \(climate, ESG\) and benchmarks ESG disclosures \(https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-climate-benchmarks-and-benchmarks-esg-disclosures_en\)](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-climate-benchmarks-and-benchmarks-esg-disclosures_en)

[More on credit rating agencies \(https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-supervision-and-risk-management/managing-risks-banks-and-financial-institutions/regulating-credit-rating-agencies_en\)](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-supervision-and-risk-management/managing-risks-banks-and-financial-institutions/regulating-credit-rating-agencies_en)

[Specific privacy statement \(https://ec.europa.eu/info/files/2022-esg-ratings-privacy-statement_en\)](https://ec.europa.eu/info/files/2022-esg-ratings-privacy-statement_en)

[More on the Transparency register \(http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en\)](http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

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