



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

Brussels 3<sup>rd</sup> June 2022

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## Part A - ESG Ratings

### 1. Use of ESG ratings and dynamics of the market

#### 1.1. Questions for investors, asset managers and benchmark administrators

Q1. Do you use ESG ratings?

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

Please explain your answer:

Q2. 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

Please specify to what other ESG ratings providing an opinion on companies you refer:

With respect to ESG ratings providing an opinion on opportunities, FESE would like to emphasise that ESG ratings play a role in the issuance of green bonds. It allows for the rating of projects considered as 'green' and provides a crucial type of assessment which attracts investors for the financing of these bonds.

ESG ratings providing an opinion on:

*Please select as many answers as you like*

- investment funds
- other financial products

**ESG ratings providing an opinion on investment funds**

ESG ratings providing an opinion on investment funds:

*Please select as many answers as you like*

- exposure to and management of ESG risks
- impact on the society and environment
- ESG characteristics
- other specialised ratings

Please specify to what other specialised ratings you refer:

**ESG ratings providing an opinion on investment funds**

Please specify to what other financial products you refer:

ESG ratings providing an opinion on the other financial products you listed above:

*Please select as many answers as you like*

- exposure to and management of ESG risks
- impact on the society and environment
- ESG characteristics
- other specialised ratings

Please specify to what other specialised ratings you refer:

Q3. 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:

If you don't use ESG ratings, or use on them to a very small degree, what do you use on in your investment or other financing decisions?

Q4. 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 specify to what other type(s) of ESG ratings you refer in your answer:

Please explain your answer:

Q5. 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, what other services do you buy?

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?

Q6. 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)

If you use ESG ratings for other purposes, please specify which ones:

Some members of FESE are also licensed as benchmark administrators. Members use ESG ratings to create new ESG indices and comply with reporting requirements under the Benchmarks Regulation (BMR).

Please explain your answer:

Q7. 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?

FESE members consider ESG ratings for the construction of a benchmark, at the beginning of the process, to screen, identify and assess the companies which would be considered the best fit for the theme of the index that would be developed. It is regarded as an important part of the selection tool for the benchmark administrator to identify these companies. With respect to disclosures around a benchmark, ESG ratings are used to comply with all BMR regulatory reporting requirements.

Q8. Do you refer to ESG ratings in any public documents or materials?

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

If you responded yes to the previous question, please specify the type of documents or materials:

FESE members refer to ESG ratings in their benchmark statements (under BMR). Details of all the ESG information used in indices, including the type of ESG factors as well as how they are used in index design, are described in detail in index methodology guides. Additionally, Benchmark Administrators publicly disclose information on ESG factors considered in all sustainability indices on their websites per the requirement of the Benchmark Regulation.

Q9. 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

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

FESE values ESG rating providers who have the capacity to provide additional support and/or interact closely with benchmark administrators for the creation of ESG indices. It includes the ability to provide ESG ratings and assessments on historical data, whilst allowing for a wide geographical coverage, and scope, of relevant entities which would be targeted for the creation of an ESG benchmark. Overall, transparency and public disclosure of methodologies is a key aspect. Given the differing approaches and the fast-paced evolution of ESG data, FESE members believe that methodological transparency can strongly contribute to the application of relevant metrics to achieve the objective of the investment product and thus maintaining investor trust.

Please explain your answer:

Q10. To what degree do 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:

There is currently a multitude of players in the market providing ESG ratings making the space competitive. In our experience, the prices amongst these players are comparable.

## 1.2. Questions for companies subject to ratings

Q11. Do you have access to ESG ratings of your own company?

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

Please explain your answer:

FESE members are active participants in ESG ratings from various providers and do have access to such ratings.

Q12. 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:

Q13. 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?

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

FESE members receive both broad and specialist ESG assessments, notably with respect to the group's environmental performance.

Q14. 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:

FESE members disclose their ESG ratings in their annual reports.

### 1.3. Questions for all respondents

Q15. 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 | Don't know<br>No opinion<br>Not applicable |
|---|---|---|---|---|---|---|---|---|---|----|--|
| Growth in demand from investors in ratings of companies for their investment decisions      |   |   |   |   |   |   |   |   | X |    |  |
| Growth in demand from companies in ratings including on rating future strategies            |   |   | X |   |   |   |   |   |   |    |  |
| Further standardisation of information disclosed by companies and other market participants |   |   | X |   |   |   |   |   |   |    |  |
| Other   |   |   |   |   |   |   |   |   |   |    |  |

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

The growth of ESG ratings will be paralleled by the demand for ESG research and data. This is also a result of greenwashing allegations which are pushing both investors and issuers to look for authoritative and independent sources of ESG performance assessment and benchmarking.

In addition, the anticipated emergence of an increased volume of publicly disclosed company sustainability data in the upcoming years - resulting from both mandatory corporate sustainability reporting expected to come into effect in various jurisdictions as well as continued voluntary reporting - will drive appetite for ESG research and analysis.

Q16. 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:

FESE members who are benchmark administrators will consider using more data from ESG ratings providers in the future for the construction of ESG indices. We also expect that investors will seek to go beyond the current status quo of broad ESG ratings incorporation, and look at more nuanced, customized ESG factors based on their investment objectives.

As companies subject to ESG ratings, FESE members consider that they already benefit from an extensive ESG rating coverage by the main ESG rating agencies and would therefore consider not using more ESG ratings in the future.

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

Q17. 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?

FESE members operating as benchmark administrators use ESG ratings data from both smaller and larger players (mix). However, we have also observed that a majority of benchmark administrators use ESG ratings from large ESG ratings providers for the creation of ESG indices.

Q18. 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 'yes' to the previous question, please explain why:

The ESG research industry is growing rapidly, and we expect to see more ESG research and data analytics providers enter the global market, including in the



EU. It is worth noting that the largest ESG ratings providers are global entities and are therefore not exclusively located in the European Union.

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

Q19. 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?

From a benchmark administrator perspective, a range of ESG assessment tools is useful not only to provide a range of indices addressing different sustainability and investment objectives, but also to create robust singular indices. FESE members believe that to obtain a holistic picture of a company's current and expected sustainability performance, a host of ESG criteria need to be considered.

Controversy screening, rankings, and qualitative assessments are part of the methodologies used for the calculation of many ESG ratings. As benchmark administrators, FESE members use controversy ratings (including the United Nations Global Compact Principles) in their screening process of companies for ESG indices.

It is also important to note that other types of ESG assessment tools are used for the issuance of green bonds, with respect to the second party opinion. Green bonds are expected to adhere to recognized principles (e.g., the Climate Bond Initiative, etc...).

Q20. 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](#)?

Q21. 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?

## 2. Functioning of the ESG ratings market

Q22. 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:

It is important to note that the market of ESG ratings is a nascent market. The industry on ESG topics is still quite young and, whilst there is still room for improvement, current companies' and regulators' practices on ESG ratings have proven to be quite mature.

Overall, strong competition among well-established and new providers has motivated product innovation and helped raise industry standards of conduct, offering choice and spurred greater transparency of providers' internal policies and procedures.

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 | Don't know<br>No opinion<br>Not<br>applicable |
|--|---|---|---|---|---|---|---|---|---|----|---|
| Lack of transparency on the operations of the providers          | X |   |   |   |   |   |   |   |   |    |   |
| Lack of transparency on the methodologies used by the providers  | X |   |   |   |   |   |   |   |   |    |   |
| Lack of clear explanation of what individual ESG ratings measure |   |   |   |   |   |   |   |   |   |    |   |
| Lack of common definition of ESG ratings                         |   |   |   |   | X |   |   |   |   |    |   |
| Variety of terminologies used for the same products              | X |   |   |   |   |   |   |   |   |    |   |
| Lack of comparability between the products offered               |   |   | X |   |   |   |   |   |   |    |   |
| Lack of reliability of the ratings                               |   |   |   |   |   |   |   |   |   |    |   |
| Potential conflicts of interests                                 |   |   |   |   |   |   |   |   |   |    |   |

|   |  |  |  |  |  |  |  |  |  |  |  |
|---|--|--|--|--|--|--|--|--|--|--|--|
| Lack of supervision and enforcement over the functioning of this market |  |  |  |  |  |  |  |  |  |  |  |
| Other   |  |  |  |  |  |  |  |  |  |  |  |

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

Q23. What do you think of the quality of the ratings offered, on a scale from 1 to 10? (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:

Q24. If you responded 'very poor' or 'poor' to the previous question, to what degree do you consider that this affect your trust in the products that are offered, on a scale from 1 to 10? (1= no impact, 10= very high impact)

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

Please explain why:

Q25. 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:

Q26. 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:

Q27. 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:

Q28. 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<br>No opinion<br>Not applicable |
|---|---|---|---|---|---|---|---|---|---|----|--|
| There is a lack of transparency on the methodology and objectives of the respective ratings | X |   |   |   |   |   |   |   |   |    |  |
| The providers do not communicate and disclose the relevant underlying information           |   |   |   |   |   |   |   |   |   |    |  |
| The providers use very different methodologies  |   |   |   | X |   |   |   |   |   |    |  |
| ESG ratings have different objectives (they assess different sustainability aspects)        | X |   |   |   |   |   |   |   |   |    |  |
| Other issue(s)  |   |   |   |   |   |   |   |   |   |    |  |

If you responded 'other issue' in the previous question, please explain which one(s):

It is important to note that there is no issue with ESG ratings having different objectives (assessing different sustainability aspects) as long as ESG ratings are transparent in their methodologies and explanation.

Q29. 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

The variety of ESG ratings is a natural and positive feature of the market. It is the result of investor demand for a multitude of analytical options to help them understand and manage investment risks and opportunities, as well as to implement their own, potentially varied investment thesis or help with their own regulatory reporting.

Q30. 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:

While recognising that the ESG research and data analytics business is not uniquely prone to potential conflicts of interest, including in comparison to the financial research and analysis industry as a whole, FESE members believe that conflict of interest provisions should be in place and that all perceived or actual conflicts of interest and steps taken to address them should be publicly disclosed. For instance, FESE identified potential conflicts of interest between the issuer of bonds and ESG rating providers. An ESG rating provider can also provide second opinions for the issuance of green bonds. A company issuing a green bond may request, and pay, an ESG rating provider with a view to providing a second opinion to assess the sustainability profile of its activities or operations. We believe that Chinese wall should be introduced to prevent the emergence of conflicts of interest in that respect.

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

If you responded 'other(s) conflicts of interest' to the previous question, please specify the additional risks you see:

Q31. 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:

In the last couple of years, smaller players have entered the market mainly by providing specialized data sets for more specific ESG objectives. For example, Equileap with their gender data set, Iceberg Data Lab with their biodiversity data set.

Q32. What barriers do you see for smaller providers?

Listed companies have shared their concerns about the number of ESG rating agencies available for the disclosure of their non-financial information. Whilst we have witnessed the emergence of smaller EU based companies that focus on certain ESG niche markets, today the market consists primarily of a range of sophisticated large non-EU players specialised in a wide range of diverse and various ESG-related activities. We deem important that any future set up allows for competition as well as for an environment which allows service providers to develop. The niche players in these markets have proven to add substantial value and their output is of high quality. Therefore, we encourage new market players to come in. In our view, what may incentivize new market entrants, is more comprehensive and comparable corporate disclosure along with regulatory and international standard setter efforts to promote machine-readable quality ESG corporate disclosure.

Q33. 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:

Q34. 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:

Q35. 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

If you responded no to the previous question, please specify what you consider should be the minimum information to be disclosed:

### 3. Questions on the need for EU intervention

#### 3.1. Need for an EU intervention

Q36. 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:



If regulatory intervention would however be deemed warranted, FESE members are generally supportive of a principles-based approach designed to address the areas for improvement identified by IOSCO in its final report on environmental, social and governance (ESG) ratings and data products providers and the study on sustainability-related ratings, data and research.

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:

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 specify the other elements the intervention should focus on and explain what solutions and options you would consider appropriate:

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

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

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

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:

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

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

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

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

Q37. 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:

If any future authorisation or registration system initiative were to be envisaged by the Commission, FESE recommends linking such an initiative with those referred to in the files that are being discussed at EU level (e.g. EU Green Bonds Regulation).

Q38. 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:

As most ESG rating providers are non-EU companies, FESE believes that if some sort of authorisation and registration system would be introduced, it may make sense to align with existing pieces of regulation such as the EU GBS and third-country provisions proposed in this regard.

Q39. 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:

Q40. Do you consider that the providers should be using standardized templates for disclosing information on their methodology?

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

Please explain your answer:

Q41. 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:

If you responded yes to the previous question, please specify what metric you consider should be used to differentiate between providers:

- Total revenue
- Revenue from ESG ratings
- Number of employees
- Percentage of EU companies/financial products rated (in the case of providers located outside the EU and not providing services to EU investors but rating EU companies/financial instruments)
- Other metric(s)
- Don't know / no opinion / not applicable

Please specify to what other metric(s) you refer and explain:

Please explain your answer:

Q42. 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

If you responded yes to the previous question, please specify what metric you consider should be used to differentiate between providers:

- Percentage of EU companies/financial products rated
- Other metric(s)
- Don't know / no opinion / not applicable

Please specify to what other metric(s) you refer and explain:

### 3.2. Costs of an EU intervention

#### Questions for ESG rating providers

[...]

#### Questions for supervisors

[...]

## PART B - Incorporation of ESG factors in credit ratings

### 4. Questions to users of credit ratings

Q55. 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

If you use credit ratings for other purposes, please explain:

Q56. 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:

Q57. 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:

Q58. 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:

Despite CRA's efforts to improve transparency and effectiveness, for example through newly developed ESG risk heatmaps, the integration of ESG factors into credit ratings by CRAs is currently still facing drawbacks of lack of comparability and standardisation between the CRAs' integration of ESG factors and ESG ratings as well as focusing particularly on larger companies.

Q59. 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

If you responded 'other' please explain where:

Q60. 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:

Q61. 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:

Q62. 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:

## 5. Questions to Credit Rating Agencies

[...]

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

Q67. 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

Q68. 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:

Please explain your answer:

Q69. 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

If you responded other, please explain:

Please explain your answer:

Q70. 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

If you responded other, please explain:

Please explain your answer:

Q71. 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:

## 7. Costs of EU intervention - questions for CRAs

[...]

### **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.