



European Securities and
Markets Authority

Call for evidence

On Market Characteristics for ESG Rating Providers in the EU



3 February 2022 | ESMA80-416-250

Responding to this Call for Evidence

ESMA invites comments on all matters in this Call for Evidence and in particular on the specific questions summarised in Chapter 6.

ESMA will consider all comments received by **11 March 2022**.

All contributions should be submitted online at EU Survey through the link [Call for Evidence on Market Characteristics for ESG Rating Providers in the EU](#).

Publication of responses

All contributions received will be published following the deadline, unless you request otherwise in the respective question of the template for responses. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA's Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the heading [Legal Notice](#).

Who should read this paper

While all interested stakeholders are invited to respond to this call for evidence, this call for evidence contains a dedicated questionnaire for each of the following three target groups:

- i. ESG Rating Providers (Questionnaire A in Section 6.1), including but not limited to:
 - a. **Legal entities established in the EU** whose occupation includes issuing ESG ratings on a professional basis.
 - b. **Legal entities not established in the EU** whose occupation includes issuing ESG ratings on a professional basis to EU clients.
 - c. **Legal entities not established in the EU** whose occupation includes issuing ESG ratings on a professional basis on EU listed and unlisted entities and financial instruments distributed in the EU.
- ii. Users of ESG Rating Providers (Questionnaire B in Section 6.2), including but not limited to:
 - a. **Financial market participants** such as credit institutions, investment firms, asset managers, insurance undertakings, reinsurance undertakings, that are either already using or considering the use of ESG ratings.
 - b. **Public Sector Authorities** such as financial supervisors, ministries of finance, debt management offices and central banks.
 - c. **Individual users acting in a professional capacity** such as financial advisors and analysts.
 - d. **Other individual users** such as retail investors, non-governmental organisations, international organisations, members of the press, and academics.
- iii. Entities covered by ESG Rating Providers (Questionnaire C in Section 6.3), including but not limited to:
 - a. **Publicly listed entities** who are covered by ESG ratings provided on a professional basis by entities located inside or outside the EU.
 - b. **Private unlisted entities** who are covered by ESG ratings provided on a professional basis by entities located inside or outside the EU.
 - c. **Sovereign issuers** who are covered by ESG ratings provided on a professional basis by entities located inside or outside the EU.

Abbreviations and definitions

Abbreviations

EC	European Commission
ESG	Environmental, Social, Governance
EU	European Union
ESMA	European Securities and Markets Authority
IOSCO	International Organization of Securities Commissions

Definitions

For the purposes of this paper the terms ESG ratings and ESG data products are understood as those set out in International Organization of Securities Commissions's (IOSCO) Final Report on Environmental, Social and Governance (ESG) Ratings and Data Products Providers¹.

ESG data products: refer to the broad spectrum of data products that are marketed as providing either a specific E, S, or G focus or a holistic ESG focus on an entity, financial instrument, product or company's ESG profile or characteristics or exposure to ESG, climatic or environmental risks or impact on society and the environment, whether or not they are explicitly labelled as "ESG data products".

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 or 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".

¹ [FR09/21 November 2021](#)

Table of Contents

1	Introduction	5
2	ESG Rating Providers	6
3	Users of ESG Ratings	6
4	Entities Covered by ESG Rating Providers	7
5	Next steps	7
6	Questionnaires	8
6.1	Questionnaire A for ESG rating Providers	8
6.2	Questionnaire B for Users of ESG Rating Providers	12
6.3	Questionnaire C Entities Covered by ESG Rating Providers	15

1 Introduction

1. On 28 January 2021, [ESMA wrote to the European Commission](#) (EC) to advise that it considered the unregulated nature of ESG ratings and data assessments posed a potential risk to investor protection. To mitigate these risks ESMA highlighted the need to match the growth in demand for these products with appropriate regulatory requirements, to ensure their quality and reliability.
2. This letter was followed by the publication of the EC's [Strategy for financing the transition to a sustainable economy](#) on 6 July 2021. As part of this strategy, the EC announced that it will take action to improve the reliability, comparability and transparency of ESG ratings². In order to achieve this, the EC committed to launching a public consultation. This public consultation is intended to gather information on the issue, with a view to developing an impact assessment on the costs and options of a possible EU intervention.
3. With a view to receiving supporting evidence for this process, the EC addressed a request for support to ESMA on 12 November 2021. This request noted that ESG ratings are used by a wide variety of investors to take into account risks and opportunities linked to ESG issues. In addition, it noted that these products are having an increasingly important impact on the operation of capital markets and on the confidence of investors in sustainable finance products. As a result, the EC requested that ESMA conduct a call for evidence with a view to identifying those ESG rating providers that are currently either present in the EU or located outside but operating in the EU.
4. This call for evidence seeks to develop a picture of the size, structure, resourcing, revenues and product offerings of the different ESG rating providers operating in the EU. ESMA is looking to complement this picture by collecting views and experiences from the users of these ESG rating providers, as well as those entities covered by ESG rating providers.
5. It is anticipated that this consultation from ESMA will be followed by a complementary consultation on this topic from the EC. The latter should seek stakeholder views about the use of ESG ratings by market participants and the functioning and dynamics of the market, potential issues, but also help inform on potential costs of an intervention at EU level.

² [Action 4c of Annex to the European Commission's Strategy for financing the transition to a sustainable economy.](#)

2 ESG Rating Providers

6. As highlighted in ESMA's correspondence to the EC in January 2021, recent legislative initiatives in the EU have increased financial market participants' needs for information on entities' sustainability characteristics. ESG ratings are just one example of a product that is suited to providing this type of information. However, without regulatory safeguards for these products several issues and risks reduce the potential benefits of these ratings.³ In addition, a study commissioned by the EC and published in January 2021 identified a lack of transparency of ESG rating providers' operations, a low level of comparability between ESG ratings, and potential conflicts of interest.⁴
7. While ESMA's supervisory mandate does not currently extend to ESG rating providers, ESMA does have existing supervisory relationships with entities affiliated with ESG rating providers through their wider group structure.
8. Through its participation at IOSCO, ESMA has also been involved in recent work to promote good practices for ESG rating providers, the users of these products as well as entities covered by these providers⁵, at a global level. However, despite the valuable information that has been received through these interactions, a comprehensive understanding of the current market structure for ESG rating providers active in the EU has yet to be established.
9. For this purpose, the term "ESG rating provider" is used to refer to entities that develop, offer or provide ESG ratings meeting the description provided on page 3 of this Call for Evidence. In addition, the term "active in the EU" is used to refer to ESG ratings providers who are either, for example, located in the EU, have clients who are based in the EU or who are located outside the EU but provide ESG ratings on entities that are headquartered in the EU.
10. Developing this understanding means establishing a reliable picture of the number, size, business models and product offerings of the different ESG rating providers that are relevant for the EU market.

3 Users of ESG Ratings

11. In order for ESMA to be able to validate and expand on the information received from ESG rating providers, ESMA is also gathering information from the users of ESG ratings. This information is intended to allow ESMA to understand the different ways in which financial market participants make use of ESG ratings from rating providers who are active in the EU as well as the market dynamics within the industry.
12. The approach of these questions is similar to the section for ESG rating providers. It aims to first establish the legal and regulatory characteristics of those entities

³ See ESMA [Report on Trends, Risks and Vulnerabilities, No.1, 2021](#), "ESG ratings: Status and key issues ahead", pp.105-115.

⁴ See ERM, [Study on sustainability-related ratings, data and research](#), January 2021.

⁵ IOSCO FR09/21 [Environmental, Social and Governance \(ESG\) Ratings and Data Products Providers](#)

contracting with ESG rating providers. It then looks to assess what products they are using and contracting for from ESG rating providers, for which objectives, the nature of the licensing agreements and whether any limitations are placed on the use of this data.

13. On the basis that the business model for providers of ESG ratings is predominantly an investor pays model in the current state of play, clients of ESG rating providers are likely to also be the users of their ESG ratings. However, it is possible that alternative business models exist where the users of an ESG rating providers' products do not have a contractual relationship with the provider, for example in the case of not for profit ESG rating providers. To accommodate these two situations the term "users" in this call for evidence refers to both users who have access to ESG ratings on the basis of a contractual relationship with ESG rating providers as well as those users who use ESG ratings on a non-contractual basis.

4 Entities Covered by ESG Rating Providers

14. In addition to the views of ESG ratings providers and their clients, it is also important to receive information from the entities covered by these providers. Given the predominantly 'investor pays' model of the market for ESG ratings in its current form, it is less common that these entities would have contractual relationships with the entities who are assessing their businesses.
15. Nevertheless, it is important to establish the modalities of these interactions to understand if they pose wider issues for investor protection. For example, the nature of links between ESG rating providers and entities covered could create issues for conflicts of interest management in situations where the rated entity is also a client of the ESG rating provider for other services.
16. The approach of the questions in this section is to build a general picture of whether and how rated entities interact with ESG rating providers active in the EU. In particular, whether their interactions are subject to any contractual agreements and whether there are common problems with the nature, frequency and transparency of these interactions.

5 Next steps

17. Based on the feedback received, ESMA intends to collate the responses to each section and provide the European Commission with an overview of the market for ESG rating providers present or operating in the EU. It is intended that this will be delivered before the end of Q2 2022.

6 Questionnaires

6.1 Questionnaire A for ESG rating Providers⁶

6.1.1 Background information

Q 1: Name of respondent or organisation (including Legal Entity Identifier where applicable).

Q 2: Nature of establishment in EU:

(A) Legal entity established in EU

- (please indicate Member State(s) of legal entities)

(B) Legal entity **and** corporate headquarters established in EU

- (please indicate Member State for each)

(C) **No** legal entity **or** corporate headquarters established in EU

- (please indicate country of corporate headquarters)

(D) Other

- Please explain

Q 3: Nature of legal entity:

(A) Parent company within group structure.

(B) Subsidiary within group structure.

(C) Independent legal entity, no group structure.

Q 4: If you answered (A) or (B) to Q3, please provide further detail on the nature of the group structure.

Q 5: Respondent subject to any existing financial regulatory authorisation, registration or supervisory regime.

(A) Yes

- Please provide further details of the regime including name of authorisation, registration or supervisory body and reference to supporting legal acts.

(B) No

⁶ Please see clarifications provided in paragraph 9 of this document on what is captured by this term.

Q 6: General nature of business model:

- (A) **For-profit large provider:** offering ESG ratings, ESG data products as well as as non-related financial information products or services.
- (B) **For-profit specialist provider:** offering ESG ratings and ESG data products.
- (C) **Non-Profit provider:** offering ESG rating and ESG data products.

Q 7: ESG Rating Provider

- (A) Yes
- (B) No
 - (Please indicate whether ESG rating products are provided by an affiliated entity or a parent company).

Q 8: ESG Data Products Provider

- (A) Yes
- (B) No
 - (Please indicate whether ESG data products are provided by an affiliated entity).

Q 9: Please describe the aspects and features of an issuer or entity's profile your **ESG ratings** assess, and the criteria considered.

Q10. Please describe the purposes for which you consider your **ESG ratings** would be suitable.

Q 11: Please list the different categories of **ESG data products** that you currently offer to your clients together with a short description (objectives of the product and principal characteristics).

Q12: Please describe the mechanisms you have designed and put in place to deal with the identification and management of possible conflicts of interest in relation to your product offerings.

6.1.2 Corporate Structure

Q1: Publicly Listed.

- (A) Inside the EU
- (B) Outside the EU
- (C) Not Listed

Q2: Size Of Balance Sheet⁷ in EUR⁸ for each of the years 2019, 2020 and 2021.

- (A) Balance sheet > 500 m
- (B) Balance sheet 100 m > 500 m
- (C) Balance sheet 43 m > 100 m
- (D) Balance sheet 10 m > 43 m
- (E) Balance sheet < 10 m

6.1.3 Business Model

Q1: Total Revenues (in EUR) for 2020

- (A) Global
- (B) EU clients / Accounted for in the EU

Q2: Revenues (in EUR) for 2020 from ESG ratings specifically

- (A) Global
- (B) EU clients / Accounted for in the EU
- (C) N/A

Q3: Revenues (in EUR) for 2020 from other ESG data products

- (A) Global
- (B) EU clients / Accounted for in the EU
- (C) N/A

Q4: Please explain the fees model for the below product offerings, including whether they are offered on a predominantly investor pays or issuer pays basis, and the rationale for any exceptions:

- (A) ESG Rating products;
- (B) ESG Data products.

6.1.4 Client Profile (based on location of contracting legal entity)

⁷ Small and medium-sized enterprises (SMEs) are defined in the [EU recommendation 2003/361](#) by Staff number, Turnover or Balance sheet.

⁸ For currency conversions to EUR, please use ECB reference exchange rates available here:

https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/index.en.html

Q1: Total number of clients

- (A) Global
- (B) EU
 - % Breakdown by Member State (if possible)
- (C) (N/A)

Q2: Number of clients who contract for ESG ratings

- (A) Global
- (B) EU
 - % Breakdown by Member State (if possible)
- (C) N/A

Q3: Number of clients who contract for other ESG data products

- (A) Global
- (B) EU
 - % Breakdown by Member State (if possible)
- (C) N/A

6.1.5 Resourcing

Q1: Total number of staff in your organisation, in Full-Time Equivalent (FTE):

- (A) EU based staff
- (B) Non-EU based staff

Q2: Total number of outsourced staff in your organisation, in FTE

- (A) EU based staff
- (B) Non-EU based staff

Q3: Total number of office locations in EU

- Please indicate member states

Q4: Total number of staff performing analytical functions, in FTE:

- (A) EU based staff
- (B) Non-EU based staff

Q5: Total staff performing analytical functions, in FTE:

(C) ESG ratings

(D) Other ESG data products

6.1.6 General views on ESG ratings in EU Financial Markets

Q1. Please provide your views on the level of relevance of ESG ratings to EU financial markets and financial market participants. Do you consider this level will increase in the coming years.

Q2. Please provide your views on the level of risk ESG ratings currently pose to orderly markets, financial stability and investor protection in the EU. Do you consider this level will increase in the coming years.

6.2 Questionnaire B for Users of ESG Rating Providers

6.2.1 Background information

Q1: Name of respondent or organisation (including Legal Entity Identifier).

Q2: Nature of establishment in EU

- (A) Legal entity established in EU
 - Please indicate Member State(s) of legal entities
- (B) Legal entity **and** corporate headquarters established in EU
 - Please indicate country of corporate headquarters
- (C) **No** legal entity **or** corporate headquarters established in EU
 - Please indicate country of corporate headquarters
- (D) Other
 - Please explain

Q3: Respondent subject to any existing financial regulatory authorisation, registration or supervisory regime.

- (A) Yes
 - Please provide further details of regime including name of authorisation, registration, or supervisory body and reference to supporting legal acts.
- (B) No

Q4: General description of business model and main area of economic activity.

Q5: Estimated total value (in EUR⁹) of administrated assets and/or asset under management (if applicable).

Q6: Estimated total value (in EUR) of investments for which **ESG rating** and/or other **ESG data products** are used as input in investment decision making process (if applicable).

6.2.2 Use of ESG ratings (if applicable)

Q1: Currently contracting for ESG ratings

(A) Yes

(B) No

Q2: Currently contracting for other ESG data products

(A) Yes

(B) No

Q3: If **yes** to **Q1** or **Q2**, please list the providers you contract with for each ESG rating and/or other ESG data products and identify the categories of product.

Q4: Please provide the length of time in months which you have contracted with each provider.

Q5: Please explain reason behind the choice of the ESG rating or data provider(s) listed in Q3.

Q6: Please explain reason for choosing more than one ESG rating provider (if applicable).

Q7: In case you changed ESG rating provider, please provide the rationale behind the choice.

Q8: Please outline and explain any shortcomings in the ESG rating or ESG data products you currently contract for.

Q9: Please outline whether you are satisfied with the level of methodological transparency for the products you contract for, including transparency around data sourcing.

Q10: If **no** to **Q1** and **Q2**, please list ESG rating and/or other ESG data products providers you are currently using.

Q11: Please outline and explain any shortcomings in the ESG rating or ESG data products you are currently using on a non-contractual basis.

⁹ For currency conversions to EUR, please use ECB reference exchange rates available here:

https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/index.en.html

Q12: Please outline whether you are satisfied with the level of methodological transparency for the products you are currently using on a non-contractual basis.

6.2.3 Contractual Characteristics

Q1: If you currently contract for ESG rating or ESG data products, please briefly describe the terms of use of your ESG rating provider, including:

(A) Time horizon of the contract

- Please provide details of break clauses and frequency of renewal.

(B) Products included in contract

- Please outline if the contract covers a single product offering or a package of product offerings.
- Please outline if products were available only under the form of packages of multiple service and/or products.
- Please provide a more specific description of the products including their intended area of focus.

(C) The Fees structure for contracted products

- Please outline if there is a flat fee for each product offering, or discount for bundled offerings.
- Please outline the main characteristics of the fee structure, including frequency and transparency of revisions.

(D) Any usage limitations (e.g. use of ratings, access to ESG ratings, time restrictions, others).

- Please outline if there are any usage limitations placed on the products which are contracted for, for example, ability to disclose or share with third parties.

6.2.4 General views on ESG ratings in EU Financial Markets

Q1. Please provide your views on the level of relevance of ESG ratings to EU financial markets and financial market participants. Do you consider this level will increase in the coming years.

Q2. Please provide your views on the level of risk ESG ratings currently pose to orderly markets, financial stability and investor protection in the EU. Do you consider this level will increase in the coming years.

6.3 Questionnaire C Entities Covered by ESG Rating Providers

6.3.1 Background information

Q 1: Name of respondent or organisation (including Legal Entity Identifier).

Q 2: Nature of establishment in EU

- (A) Legal entity established in EU
 - Please indicate Member State(s) of legal entities
- (B) Legal entity **and** corporate headquarters established in EU
 - Please indicate country of corporate headquarters
- (C) **No** legal entity or corporate headquarters established in EU
 - Please indicate country of corporate headquarters
- (D) Other
 - Please explain

Q3: Respondent subject to any existing authorisation, registration or supervisory regime.

- (A) Yes
 - Please provide further details of regime including name of authorisation, registration or supervisory body and reference to supporting legal acts.
- (B) No

Q4: General description of business model and main area of economic activity.

Q5: ESG rating providers that provide a rating for your company.

- If possible please provide the names of these ESG rating providers.

Q6: Duration for which your entity has been covered by (each) ESG rating provider.

6.3.2 Interactions with ESG rating Providers

Q1: How does your company interact with those ESG rating providers that provide an ESG rating for your company (e-mail, conference call, IT platform, etc.).

Q2: What is the frequency of these interactions.

Q3: Please outline whether your company is provided opportunities to correct any error relating to the ESG rating provided for your company, and if so, how this is performed and at what stage of the rating process.

Q4: Please provide an estimate of cost in FTEs to your organization to interact with ESG rating providers for the purpose of your companies ESG rating in 2021 (or latest year available).

Q5: Does your company contract with an ESG rating provider for an ESG rating on an “issuer pays” basis?

(A) Yes

- Please outline reasons for contracting on an issuer pays basis.

(B) No

- Please outline the reasons for not contracting on an issuer pays basis.

6.3.3 General views on ESG ratings in EU Financial Markets

Q1. Please provide your views on the level of relevance of ESG ratings to EU financial markets and financial market participants. Do you consider this level will increase in the coming years.

Q2. Please provide your views on the level of risk ESG ratings currently pose to orderly markets, financial stability and investor protection in the EU. Do you consider this level will increase in the coming years.