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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

Bulgarian

Croatian

Czech

Danish

*Language of my contribution

Consumer organisation

EU citizen

0	Dutch
•	English
	Estonian
	Finnish
	French
	German
	Greek
	Hungarian
0	Irish
0	Italian
0	Latvian
0	Lithuanian
0	Maltese
0	Polish
0	Portuguese
	Romanian
	Slovak
0	Slovenian
0	Spanish
0	Swedish
*I am	giving my contribution as
	Academic/research institution
	Business association
•	Company/business organisation

Environmental organisation
Non-EU citizen
Non-governmental organisation (NGO)
Public authority
Trade union
Other
*First name
Elisabeth
*Surname
Gambert
*Email (this won't be published)
e.gambert@afep.com
*Organisation name
255 character(s) maximum
Afep (Association of Large French Companies)
*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.
953933297-85
*Country of origin
Please add your country of origin, or that of your organisation. Afghanistan Djibouti Libya Saint Martin
- agricinotari Djibodi Eloya Garit Martin

0	Åland Islands	0	Dominica		Liechtenstein		Saint Pierre and
							Miquelon
0	Albania	0	Dominican	0	Lithuania	0	Saint Vincent
			Republic				and the
							Grenadines
0	Algeria	0	Ecuador	0	Luxembourg	0	Samoa
	American Samoa		Egypt		Macau		San Marino
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							Príncipe
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	Antigua and		Eswatini		Mali		Seychelles
	Barbuda						
	Argentina	0	Ethiopia		Malta		Sierra Leone
0	Armenia	0	Falkland Islands		Marshall Islands		Singapore
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	Australia		Fiji		Mauritania		Slovakia
	Austria	0	Finland		Mauritius		Slovenia
	Azerbaijan	0	France		Mayotte		Solomon Islands
	Bahamas	0	French Guiana		Mexico		Somalia
	Bahrain		French Polynesia	0	Micronesia		South Africa
	Bangladesh		French Southern		Moldova		South Georgia
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	Barbados	0	Gabon		Monaco	0	South Korea
	Belarus		Georgia		Mongolia		South Sudan
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	Belize	0	Ghana		Montserrat		Sri Lanka
	Benin	0	Gibraltar		Morocco		Sudan
	Bermuda	0	Greece		Mozambique		Suriname
0	Bhutan	0	Greenland		Myanmar/Burma		Svalbard and
							Jan Mayen
	Bolivia	0	Grenada		Namibia		Sweden

	Bonaire Saint Eustatius and Saba	0	Guadeloupe	0	Nauru	0	Switzerland
0	Bosnia and Herzegovina	0	Guam	0	Nepal	0	Syria
0	Botswana		Guatemala	0	Netherlands	0	Taiwan
0	Bouvet Island	0	Guernsey	0	New Caledonia	0	Tajikistan
0	Brazil		Guinea	0	New Zealand	0	Tanzania
0	British Indian Ocean Territory	0	Guinea-Bissau	0	Nicaragua	0	Thailand
0	British Virgin Islands	0	Guyana	0	Niger	0	The Gambia
0	Brunei		Haiti		Nigeria	0	Timor-Leste
0	Bulgaria		Heard Island and		Niue	0	Togo
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0	Burkina Faso		Honduras		Norfolk Island	0	Tokelau
0	Burundi		Hong Kong	0	Northern	0	Tonga
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0	Canada		India	0	Norway	0	Turkey
	Cape Verde		Indonesia	0	Oman	0	Turkmenistan
0	Cayman Islands		Iran	0	Pakistan	0	Turks and
							Caicos Islands
0	Central African		Iraq		Palau	0	Tuvalu
	Republic						
0	Chad		Ireland		Palestine	0	Uganda
0	Chile		Isle of Man	0	Panama	0	Ukraine
0	China		Israel		Papua New	0	United Arab
					Guinea		Emirates
0	Christmas Island		Italy		Paraguay	0	United Kingdom
	Clipperton	0	Jamaica	0	Peru	0	United States

0	Cocos (Keeling) Islands	Japan	0	Philippines	0	United States Minor Outlying
	Isianas					Islands
0	Colombia	Jersey	0	Pitcairn Islands	0	Uruguay
0	Comoros	Jordan	0	Poland	0	US Virgin Islands
0	Congo	Kazakhstan	0	Portugal	0	Uzbekistan
0	Cook Islands	Kenya	0	Puerto Rico	0	Vanuatu
0	Costa Rica	Kiribati	0	Qatar	0	Vatican City
0	Côte d'Ivoire	Kosovo	0	Réunion	0	Venezuela
0	Croatia	Kuwait	0	Romania	0	Vietnam
0	Cuba	Kyrgyzstan	0	Russia	0	Wallis and
		, 3,				Futuna
0	Curaçao	Laos	0	Rwanda		Western Sahara
0	Cyprus	Latvia	0	Saint Barthélemy		Yemen
0	Czechia	Lebanon	0	Saint Helena		Zambia
				Ascension and		
				Tristan da Cunha	l	
0	Democratic	Lesotho	0	Saint Kitts and		Zimbabwe
	Republic of the			Nevis		
	Congo					
0	Denmark	Liberia	0	Saint Lucia		
* Field	of activity or sector	or (if applicable)				
	ESG rating provid	, , ,				
	Auditing					
	Banking					
	Credit rating ager	ICV				
	Insurance	-,				
	Pension provision	1				
	•	gement (e.g. hedge	fun	ds, private equity	fun	ds, venture
		ney market funds, s				
	Market infrastruct	ure operation (e.g. (CCF	Ps, CSDs, Stock e	xcł	nanges)
	Social entreprene	-				•
V	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. Fo r 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 a 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 <u>action plan</u> <u>on sustainable finance</u>, published in March 2018, the Commission announced a study to be conducted to dig further into the specifics of this market.

The <u>study on sustainability-related ratings</u>, <u>data and research</u> ('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 <u>consultation on the renewed sustainable finance strategy</u>, 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 <u>EU g</u> reen 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 <u>European Securities and Markets Authority (ESMA) published a call for evidence</u>, 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 s	elect as many a	answers as you like				
	SG rating	s providing a	n opinion on o	oportunities		
	_	gs providing a s and rules	n opinion on th	e compliand	ce of comp	anies with
	Exposure t	o and manag	ement of ESG	risks		
	SG rating	gs providing a	n opinion on a	company pe	erformance	e towards certain
	SG rating and enviro		n opinion on th	e impact of	companies	s on the society
	SG rating Other	gs providing a	n opinion on th	e ESG profi	ile of the co	ompany
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© 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
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 decisio
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.
Tholading spaces and line breaks, i.e. stricter than the two a characters counting method.
As a hand-mark administrator have do you take into account CCC ratings
As a benchmark administrator, how do you take into account ESG ratings
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
$^{\square}$ 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

7						
© 8						
© 9						
[©] 10	- very comp	etitive				
O Doi	า't know / no	o opinion / not applica	able			
Please e	explain you	r answer:				
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		uch as FTSE Russell publish				
	•	ndex. Some ESG rating ager		-		
		agency's website. In other c e, the global ESG score as w		_		
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sustaina	ibility risks	and opportunities	and yo	ur imp	act on th	e outside world?
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(1 =	not	determinant,	10	=	very	determinant)
1 -	not determi	nant				

	2
0	3
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0	6
0	7
0	8
0	9
0	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 several tools to assess the way they manage sustainability risks and opportunities (see answer here below). ESG ratings are usually looked at by companies to compare their own assessment with the ones made by ESG rating providers.

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.

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 French and EU legislation require 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.

According to the French Law on the Duty of Care (2017), large French companies are obliged to adopt a vigilance plan to allow for risk identification and for the prevention of severe violations of human rights and fundamental freedoms, serious bodily injury or environmental damage or health risks resulting directly or indirectly from the operations of the company or its subsidiaries or subcontractors or suppliers with whom it maintains an established commercial relationship. These vigilance measures include risk mapping, regular assessment of business relationships, action plans, alert mechanisms and a monitoring scheme.

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. An open database which would allow to easily access industry-level or cross-industry raw data (such as energy consumption) or performance benchmarks (for example CO² intensity / EUR) would be appreciated.

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.

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 limited relevance 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.

Afep conducted an internal survey of ESG reports published by 93 of its member companies. 65% (60 companies out of 93) disclosed at least one ESG rating among the following: FTSE4Good, MSCI, EcoVadis, ISS-ESG, DJSI in their management reports. In most cases, this information is included 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	l k Ol
Growth in demand from investors in ratings of companies for their investment decisions	•	•	•	•	•	•	•	•	•	•	
Growth in demand from companies in ratings including on rating future strategies	0	0	0	0	•	0	0	0	0	0	
Further standardisation of information disclosed by companies and other market participants	0	0	0	0	0	0	0	•	0	0	
Other	0	0	0	0	0	0	0	•	0	0	

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.

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;

Companies also underscore the trend to increasingly refer to raw ESG data rather than to ESG ratings. Therefore, the establishment of a European Single Access Point (ESAP) could bring an improvement to the present situation if it would allow ESG service providers to directly access standardised, high quality, comparable and verified ESG data based on the new CSRD requirements without obliging companies to answer multiple questionnaires.

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. Afep member companies' investors are mostly 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).

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 the 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.

Companies 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

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

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.

Companies acknowledge that ESG rating is constantly evolving and that innovation in this field must remain possible. Therefore, they do not 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 an increased transparency and quality of ratings and better prevention of conflicts of interest.

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.

See our answer to the question here above. 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

conduct Afep member companies to consider that the EU Commission should impose minimum transparency requirements on ESG rating agencies and establish a regulatory oversight regime inspired by the one governing credit 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)

Lack of transparency on the operations of the providers Lack of transparency on the methodologies used by the providers Lack of clear explanation of what individual ESG ratings measure Lack of common definition of ESG ratings Variety of terminologies	· very nittie, i		P 0 1 1011	,								
transparency on the operations of the providers Lack of transparency on the methodologies used by the providers Lack of clear explanation of what individual ESG ratings measure Lack of common definition of ESG ratings Variety of terminologies		1	2	3	4	5	6	7	8	9	10	op a
transparency on the methodologies used by the providers Lack of clear explanation of what individual ESG ratings measure Lack of common definition of ESG ratings Variety of terminologies	transparency on the operations of	0	0	0	0	0	0	0	•	0	0	
explanation of what individual ESG ratings measure Lack of common definition of ESG ratings Variety of terminologies	transparency on the methodologies used by the	0	0	0	0	0	0	0	0	0	•	
common definition of ESG ratings Variety of terminologies	explanation of what individual ESG ratings	0	0	0	0	0	0	0	•	0	0	
terminologies	common definition of	0	0	0	0	0	0	0	0	0	•	
same products	terminologies used for the	0	0	0	0	0	0	0	•	0	0	

Lack of comparability between the products offered	•	©	•	•	•	©	•	•	©	0	
Lack of reliability of the ratings	0	0	0	0	0	•	0	0	0	0	
Potential conflicts of interests	0	0	0	0	0	0	0	0	•	0	
Lack of supervision and enforcement over the functioning of this market	0	•	•	•	•	•	•	•	•	•	
Other	0	0	0	0	0	0	•	0	0	0	

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.

The lack of standardization of the indicators which are measured also contribute to the present shortcomings.

What do you think of the quality of the ratings offered, on a scale from 1 to $1 \quad 0$?

(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 guestionnaires.

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

Finally, companies 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
0	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 e.a. 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, French companies have noticed on numerous occasions a bias resulting from the North American view on ESG issues. ESG is also about values and convictions about what constitutes responsible business conduct.

For example, with regard to governance, the rules applicable to French companies are not considered sufficiently, which puts them at a disadvantage. The Afep-Medef Code accepts the 12-years rule for determining the threshold beyond which a director is no longer considered as independent. But some agencies systematically refer to the stricter Anglo-American standard of 9 years and attribute poor scores to French companies despite the fact that they are compliant with the Afep-Medef Code. It should be noted that the European recommendation concerning independent directors also accepts the 12-year rule.

In addition, the specific features of national law are not always sufficiently considered in ESG ratings. For example, in France the prevention of non-discrimination related to ethnic origin does not allow for a quantitative measurement by companies, given that French law prohibits the compilation of records on this subject.

Likewise, the French law requires the appointment of directors representing employees, who are inherently not considered to be independent, this specificity is not always taken into account when it comes to calculating the proportion of independent directors.

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.

sam			current level of y aspects is add			etween ratings as	ssessing the
0	No						
0		know / ne	o opinion / not ap	oplicable)		
Plea	se exp	lain you	r answer to que	estion 1	:		
		r(s) maximu					
						cters counting method.	
	see our an	swer to the	question here above o	n the quali	ty of rating	js.	
vario	ous typ	pes of I	ESG ratings ca	n caus	e prob	level of correlation of the company, on a sc	usiness and
(1	=	no	problem,	10	=	significant	problem)
0	1 - no	problem					
0	2						
	3						
0	4						
•	5						
	6						
	7						
	8						
	9						
0		nnificant	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.

It is not so much the fact that there is divergence of and low level of correlation between ESG ratings that is problematic, but 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 f r o m 1 0 ?

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

	1	2	3	4	5	6	7	8	9	10	D kn f opi
There is a lack of transparency on the methodology and objectives of the respective ratings	©	©	•	•	©	•	•	©	•	•	
The providers do not communicate and disclose the relevant underlying information	0	0	0	©	0	0	0	•	0	0	
The providers use very different methodologies	0	0	0	0	0	0	•	0	0	0	

ESG ratings have different objectives (they assess different sustainability aspects)	•	•	•	•	•	•	•	•	•	•	
Other issue(s)	0	0	0	0	0	0	0	0	0	0	

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.

o f	inter	ests	on	а	scale	from	1	to	10?
(1	=	very	Hi	ttle,	10	=	very		much)

- 1 very little
- [©] 2
- [©] 3

4			
[©] 5			
[©] 6			
[©] 7			
8			
⊚ 9			

Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

10 - very much

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. Also, companies often 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

V	Where providers both assess companies and offer paid advisory services
1	Where providers charge companies to see their own reports
1	In the absence of separation of sales and analytical teams
1	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
1	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
⁰ 4
© 5
[©] 6
⁰ 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.

See our answer to the question here above. The necessary investments for smaller providers who want to enter the market are very high because they would need to recur to machine learning and artificial intelligence, or hire an important number of analysts to cover an equally large number of companies as their large competitors.

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 1 0 ?

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

1 - does not allow

0	2						
0	3						
0	4						
0	5						
0	6						
0	7						
0	8						
0	9						
0	10 - f	fully allow	vs				
0	Don't	t know / r	no opinion / not applica	able			
Plea	ase ex	plain yo	ur answer:				
		rter(s) maxin		C Word ob	orootoro	counting mot	had
		answer here	breaks, i.e. stricter than the M	S WOIG CIT	aracters	counting met	nou.
То	what o	degree (do you consider the	e fees	charç	ged for E	SG ratings to be
pro	portio	nate to	the services pro	ovided,	on	a scale	from 1 to 10?
(1	=	not	proportionate,	10	=	very	proportionate)
0	⁾ 1 - no	ot propor	tionate				
0	2						
0	3						
0	4						
0	5						
0	6						
0	7						
0	8						
0	9						
0							
	⁾ 10 - \	very prop	oortionate				

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
- O 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
- O 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. A country per country approach with separate national initiatives will not be sufficient. 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 Afep member companies to consider that the EU Commission should impose substantial requirements and a system of registration and supervision of ESG ratings and related services and products providers by ESMA. Companies also underline that ESG data in general needs to be included in the scope of the Commission's impact assessment 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.

See our answer here above: only a European mandatory legal framework will allow for a rapid improvement of practices. A country per country approach with separate national initiatives will not be sufficient. 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.

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.

Afep companies call on the Commission to adopt legislative measures including the requirements listed below. These legislative measures should be based on a requirement in particular for financial market participants and benchmark administrators, who use ESG ratings to develop and sell sustainability-linked products, to use ratings issued by providers complying with the following requirements:

- a) Substantial mandatory requirements for ESG ratings and related products and services providers:
- Obligation to have a permanent establishment in the European Union;
- Obligation to respect organisational requirements guaranteeing their independence and the prevention and management of conflicts of interest;
- Obligation to respect operational requirements, prohibiting consultancy or advisory services to be performed to the same entity that is subject to ESG ratings;
- Obligation to communicate to companies their rating methodologies including the precise criteria against which companies are being rated; the definitions and weight of these criteria and the expected performance;
- Obligation to communicate to companies, free of charge, the ratings and related analysis in case of unsolicited rating ;
- Obligation to establish a right of recourse for companies to check, if they wish to do so, the accuracy of the data, and to make public, together with the rating, the company's comments on inaccurate or irrelevant data or inappropriate methodologies;
- Obligation to publicly disclose, on an annual basis, a transparency report including:
- detailed information on the legal structure and ownership of the rating agency;
- financial information on the revenue of the rating agency, including total turnover, divided into fees from ESG rating activities and consultancy or advisory services;
- a description of the corporate governance arrangements;
- a description of the internal control mechanisms ensuring quality of rating activities, including the procedures in place to ensure quality of research and qualifications of the staff involved, and the prevention and management of potential conflicts of interests;
- information regarding ESG related products and services provided by the rating agency, as well as their characteristics;
- the essential features of the methodologies and models they apply, including the main information sources they use, the processes in place for collecting data, how the absence of data is managed and whether they recur to estimates;
- whether and how they take national market, legal, regulatory and company-specific conditions into account;
- whether they have interactions with the companies and/or with their stakeholders, and the extent and nature thereof;
- the policy regarding fees charged to their clients, which should not be discriminatory.
- b) A registration system under ESMA's responsibility to ensure that applicants are granted registration only if they demonstrate their ability to meet all the regulatory requirements mentioned here above.
- c) A risk-based supervision by ESMA, where ESMA would:
- analyse the periodic information that ESG rating agencies publish and submit;
- monitor the respect of substantial mandatory requirements;

- review notifications of material changes to the initial conditions from registration;
- analyse received complaints by market participants;
- conduct investigations that may involve on-site visits;
- take appropriate enforcement action in case of violations of the regulatory framework, ranging from the imposition of fines to the withdrawal of registration.

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.

See our response here above, including mandatory transparency requirements for ESG rating providers.

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.

See our response here above, including mandatory organisational requirements guaranteeing and the obligation to establish a right of recourse for companies to check, if they wish to do so, the accuracy of the data, and to make public, together with the rating, the company's comments on inaccurate or irrelevant data or inappropriate methodologies;

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.

See our response here above, including the obligation to disclose essential features of the methodologies and models ESG rating agencies apply, including the main information sources they use, the processes in place for collecting data, how the absence of data is managed and whether they recur to estimates, whether and how they take national market, legal, regulatory and company-specific conditions into account; whether they have interactions with the companies and/or with their stakeholders, and the extent and nature thereof.

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.

See our response here above, including the obligation to disclose essential features of the methodologies and models ESG rating agencies apply, including the main information sources they use, the processes in

place for collecting data, how the absence of data is managed and whether they recur to estimates, whether and how they take national market, legal, regulatory and company-specific conditions into account; whether they have interactions with the companies and/or with their stakeholders, and the extent and nature thereof.

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.

See our response here above, including the obligation to disclose the policy regarding fees charged by ESG rating agencies to their clients (fees which should not be discriminatory).

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.

See our response here above, including the obligation to respect operational requirements, prohibiting consultancy or advisory services to be performed to the same entity that is subject to ESG ratings.

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.

See our response here above, including a risk-based supervision by ESMA, where ESMA would:

- analyse the periodic information that ESG rating agencies publish and submit;
- monitor the respect of substantial mandatory requirements;
- review notifications of material changes to the initial conditions from registration;
- analyse received complaints by market participants;
- conduct investigations that may involve on-site visits;
- take appropriate enforcement action in case of violations of the regulatory framework, ranging from the imposition of fines to the withdrawal of registration.

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



[◎] 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.

Only an authorisation or registration system can ensure that ESG rating agencies meet the substantial regulatory requirements similar to the ones that govern financial rating agencies, which companies consider necessary to impose on them.

Regulatory oversight of ESG rating agencies is necessary considering that many factors suggest that reliance on ESG ratings will increase in the future. This increased reliance could create risks for the orderly functioning of markets, financial stability and investor protection if the relevance, reliability and comparability of ESG ratings are not guaranteed by robust methodologies which are free of any conflict of interests.

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?

0	Vac
	YES

- O 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.

Investors of Afep member companies are mostly international which means that the ESG ratings established concerning these companies are used by and design for mostly investors outside of the EU. In order to ensure a level playing field and avoid ESG ratings on one and the same EU company to be governed by different rules regarding transparency, quality and the management of conflicts of interest, the providers should be subject to the same requirements, whether serving EU or global investors.

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

- Yes
- O 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. Afep member companies also call for convergence between EU and international sustainability reporting standards which will contribute to a better comparability of ESG performance.

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.

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.

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 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			

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% 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 O No Don't know / no opinion / not applicable

If you chose more than 160 hours in the table above, please provide an

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.	
molecumy spaces and line breaks, i.e. stricter than the two vvoid 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 or
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 <u>I</u> <u>OSCO in its code of conduct for CRAs</u>. 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 <u>CRA Regulation</u> 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 <u>Capital Requirements Regulation (CRR)</u> and in the <u>Solvency Capital Requirement (SCR)</u>. 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?

o y	ou use creat 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

Yes	
No	
These rec	quirements don't apply to me
	w / no opinion / not applicable
Please explair	n your answer:
5000 character(s)	maximum d line breaks, i.e. stricter than the MS Word characters counting method.
le it imnortan	t for you to understand to what extent individual credit rating
-	peen influenced by sustainability factors?
Not impor	tant at all
Slightly in	nportant
Important	
Very important	ortant
Don't kno	w / no opinion / not applicable
Please explair	your answer:
5000 character(s)	
including spaces an	d line breaks, i.e. stricter than the MS Word characters counting method.

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 made by certain CRAs but there is still room for progress to have a standardised and systematic approach allowing to have explanations in case of an impact of sustainability factors on credit ratings.

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

Please select as many answers as you like

1	Press release accompanying credit ratings
	Additional analysis and reports available to subscribers
1	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
- O 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.

Some Afep members have observed differences between the approaches of S&P and Moody's for example.

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)
$^{lacktrel{ extsf{w}}}$ 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

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

In general the development is insufficient although some CRAs have improved

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 ESC
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)

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 credings
Further supervisory actions by ESMA
Legislative intervention
While improvements are insufficient, we do not see further scope for EU intervention

Do you consider that the current trends in the market are sufficient to ensure

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

5000 character(s) maximum

Other

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.

arding the possible regulatory intervention, what type of requirements do find relevant? The 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 Character(s) maximum ding spaces and line breaks, i.e. stricter than the MS Word characters counting method.
at kind of risks or merits of the EU intervention do you see? se 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

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.
5 , and a second

Would you foresee any additional compliance costs if the current guideli	nes
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 abse	nce
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)

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

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

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)

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)

Specific privacy statement (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)

Contact

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