

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

Fields marked with * are mandatory.

Introduction

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

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

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

More information on

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

About you

* Language of my contribution

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

* I am giving my contribution as

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

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

* First name

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* Surname

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* Organisation name

255 character(s) maximum

Deutsche Börse Group

* 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.

20884001341-42

* Country of origin

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

- Afghanistan
- Djibouti
- Libya
- Saint Martin

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

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

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

* Field of activity or sector (if applicable)

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

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

* Role in the ESG rating / Credit rating market

Please select as many answers as you like

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

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

* Contribution publication privacy settings

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

Anonymous

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

Public

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

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

Part A – ESG Ratings

Background information

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

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

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

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

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

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

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

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

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

I. Use of ESG ratings and dynamics of the market

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

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

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

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

Questions for investors, asset managers and benchmark administrators

Do you use ESG ratings?

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

Please explain your answer:

5000 character(s) maximum

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

Please note that we will approach the first set of questions from the perspective of a benchmark administrator and user of ESG data.

The ESG investment landscape has grown to span an entire spectrum of diverse strategies, ambitions and risk considerations. As our clients seek to incorporate their individual sustainability commitments and goals, we offer a broad range of STOXX and DAX indices tracking different ESG/sustainability and climate

strategies. As with our other indices, they are all transparent and rules based. Our sustainability indices stand apart through our unique open-architecture approach, which relies on increasingly varied and sophisticated inputs from a range of different ESG ratings offered by various sustainability data providers as well as clients' own ESG datasets. This helps us address the demand and ensure the accuracy and effectiveness of the indexing outcome.

See more at <https://qontigo.com/flexible-approach-to-use-of-esg-data-is-key-driver-in-advancing-sustainability-indices/>

Which type of ESG ratings do you use?

ESG ratings providing an opinion on companies:

Please select as many answers as you like

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

ESG ratings providing an opinion on:

Please select as many answers as you like

- investment funds
- other financial products

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

(1 = very little, 10 = decisive)

- 1 - very little
- 2
- 3

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

Please explain your answer:

5000 character(s) maximum

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

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

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

Please explain your answer:

5000 character(s) maximum

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

In our STOXX and DAX indices, we utilize overall ESG ratings in our exclusion and best-in-class sustainable index construction methodologies. We also use specific Environmental, Social and Governance factors and elements within in STOXX Global ESG Social Leaders, STOXX Global ESG Environmental Leaders, and STOXX Global ESG Governance Leaders indices, in addition to thematic and climate-focused offerings.

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

-

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

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

5000 character(s) maximum

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

What are you using ESG ratings for?

Please select as many answers as you like

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

Please explain your answer:

5000 character(s) maximum

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

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

5000 character(s) maximum

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

Our ESG indices use ESG ratings in a variety of ways depending on their objectives, from screening out the poor ESG performers, selecting the best-in-class ESG leaders, or selection based on particular ESG KPIs.

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

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

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

5000 character(s) maximum

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

Details of all the ESG information used in our indices, including the type of ESG factors as well as how they are used in index design, are described in detail in our index methodology guides (STOXX guide). Additionally, STOXX publicly discloses on our website, information on ESG factors considered in all our sustainability indices per the requirement of the Benchmark Regulation.

What do you value and need most in ESG ratings?

Please select as many answers as you like

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

Please explain your answer:

5000 character(s) maximum

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

Being an open-architecture based index provider which allows for use of ESG ratings from a range of data providers, STOXX Ltd has devised an internal assessment process that scores different data providers on the following criteria:

- Control processes through proper data governance practices
- Robustness in managing data gaps, lack of history, estimation models
- Granularity of data at the sector, portfolio, company level
- Transparency of methodology
- Consistency through having a definition of materiality and alignment with major global standards
- Reliability through data assurance and verification practices
- Conflict of Interest

The internal assessment process provides the highest scoring to data providers in accordance with the public disclosure of their methodologies. We find transparency to be a very important aspect in light of the lack of standardization of the definition of “materiality” and “sustainable activities” across different data providers and well as jurisdictions. Based on our analysis we have found that most providers disclose their full methodologies. The more detailed methodologies, however, are predominantly disclosed to existing clients due to aspects of intellectual property. Given the differing approaches and the fast-paced evolution of ESG data, we believe that methodological transparency can strongly contribute to the application of relevant metrics to achieve the objective of the investment product and thus maintaining investor trust.

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

(1 = not competitive, 10 = very competitive)

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

Please explain your answer:

5000 character(s) maximum

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

There is currently a multitude of players providing ESG ratings, making the market competitive.

Questions for companies subject to ratings

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

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

Please explain your answer:

5000 character(s) maximum

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

Please note that we will approach the rest of the questions in this section from the perspective of a rated company.

Yes, DBG is an active participant in ESG ratings from S&P, Sustainalytics, MSCI, CDP, Vigeo Eiris, FTSE Russell, ISS ESG. In this context, we have access to the ratings of our own company. Regarding the ratings by ISS ESG please see later section on conflicts of interest provisions.

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

(1 = not determinant, 10 = very determinant)

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

Please explain your answer:

5000 character(s) maximum

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

We use the results of our credit and ESG rating agencies as additional steering parameters. This outside-in view serves as an external evaluation of our actions as well as our results and plans.

Moreover, it fulfils an important steering function for us in relation to our Group's ESG strategy, as ESG ratings are one of four overall ESG targets, which is inserted to our Executive Board remuneration. As DBG we aim to achieve a place in the 90th percentile in three leading independent ESG ratings (S&P, Sustainalytics, MSCI). In addition to the actual ESG rating, we monitor the development of our ESG ratings very closely, in order to systematically identify and realise potential for improvements over the years.

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

5000 character(s) maximum

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

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

5000 character(s) maximum

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

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.

DBG discloses the ESG valuation of S&P, Sustainalytics and MSCI in our annual report. For further details please see our annual report on page 71.

<https://www.deutsche-boerse.com/resource/blob/2725920/46c9bf2ffcf7da4d6c23de616c518344/data/DBG-annual-report-2021.pdf>

Questions for all respondents

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

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

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

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

	1	2	3	4	5	6	7	8	9	10	
Growth in demand from investors in ratings of companies for their investment decisions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	
Growth in demand from companies in ratings including on rating future strategies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	

Further standardisation of information disclosed by companies and other market participants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>

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

5000 character(s) maximum

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

All things being equal, DBG expects to see continued demand for ESG research, not just ESG ratings, from asset owners and asset managers seeking greater insights into the ESG-related characteristics of a company, an investment product or an investment portfolio.

In addition, the anticipated emergence of an increased volume of publicly disclosed company sustainability data in the upcoming years – resulting from both mandatory corporate sustainability reporting expected to come into effect in various jurisdictions, as well as continued voluntary reporting - will drive investor appetite for ESG research and analysis. We expect that investors will turn to both in-house analysis and also partner with existing and new ESG research providers to help to meet this demand. Equally, we expect the demand from companies to increase due to their increasing strategic relevance also in terms of future orientation.

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.

From a benchmark administrator perspective, as ESG considerations gain a "license-to-operate" status in the investment landscape, we anticipate that a larger number of our existing and new indices will incorporate ESG ratings. We also expect that investors will seek to go beyond the current status quo of broad ESG ratings incorporation, and look at more nuanced, customized ESG factors based on their investment objectives.

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

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

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

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

5000 character(s) maximum

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

Yes, in DBG's view, there are both a sufficient number of EU-located providers and sufficient offerings of ESG ratings from EU-located providers. The ESG research industry is growing rapidly, and we expect this trend to continue, including in the EU.

From the unique DBG vantage point – that is, covering rated entities, a user of ratings, and a rating provider – we note that ESG rating providers' methodologies are generally driven by internationally acknowledged norms and agreements (e.g., UN Declaration on Human Rights, ILO conventions, Paris Agreement) and reporting standards (e.g., GRI, SASB). In this regard, the ratings and rating providers serve their investor clients' global portfolio investment needs well.

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.

From a benchmark administrator perspective in particular, considering a range of ESG assessment tools is useful not only to provide a range of indices addressing different sustainability and investment objectives, but also to create robust singular indices. We believe that to obtain a holistic picture of a company's current and expected sustainability performance, a host of ESG criteria needs to be considered. At a high level, we classify ESG data used under two categories:

- ESG risk: how the ESG performance of a company's operations is likely to impact its economic and financial returns
- Impact: to what extent is the company positively contributing to society and capturing opportunities on sustainability related markets?

Based on the objective of the index, this can include information such as if a company is violating certain global norms around governance or human rights, their product involvement as part of revenue generation, forward-looking metrics such as business strategy and sustainability targets, or if they have been involved in any ESG controversies.

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

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.

Users of ESG research products are sophisticated investors and financial professionals who take seriously their obligation to conduct proper diligence of their service providers. They use this information as one of many "research inputs" to understand and manage portfolio risk and opportunity and to help implement their respective (and often differing) investment and stewardship philosophies. Such research input often complements investors' own "in-house" research and analysis, which may weigh relevant ESG factors for any given company differently from its providers.

DBG also believes that the availability of reliable and high-quality ESG data is a critical component of ESG ratings and data products. Therefore, the lack of reliable, consistent, and comparable ESG standards and disclosures from issuers impacts not only the availability and quality of information that can be used by investors, but also by ESG ratings and data products providers. Current EU efforts on CSRD, SFDR, and the EU Taxonomy and further global efforts led by the IFRS Foundation to establish a global baseline for corporate sustainability reporting focused on enterprise value creation and regional developments that introduce or expand corporate ESG standards and disclosure requirements, can help to address this issue, and are particularly welcome. Regulators should continue to support these processes and work to align standards and disclosure requirements for corporates where possible.

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.

In DBG's view, the market for ESG ratings is functioning well and providers are generally responsive to their investor clients, the sophisticated users of ESG ratings. Strong competition among well-established and new providers has motivated product innovation and helped raise industry standards of conduct, offering investors choice and spurring greater transparency of providers' internal policies and procedures.

Providers also understand well that if investors lose confidence in them or believe their research or product quality are compromised or lacking, or that the provider's fees are too high or fee transparency inadequate, investors will find other providers.

Today, investors can complement their in-house expertise by hiring a larger provider for a comprehensive suite of product offerings or a smaller, specialised boutique firm for more specific data and research needs, or many choose to work with a combination thereof. Investors can also select from a variety of ESG ratings and methodological approaches, which are constantly evolving to accommodate emerging ESG issues and enhanced corporate reporting, to best suit their investment strategy(ies).

We welcome the EC's consultation in seeking to clarify emerging issues and reflect on recognized good provider practices and investor needs as you consider policy options. We share your objectives of clarity and transparency and offer policy recommendations for your consideration in the subsequent responses.

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

(1 = very little, 10 = important)

	1	2	3	4	5	6	7	8	9	10	Level of accuracy
Lack of transparency on the operations of the providers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
Lack of transparency on the methodologies used by the providers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
Lack of clear explanation of what individual ESG ratings measure	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
Lack of common definition of ESG ratings	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
Variety of terminologies used for the same products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
Lack of comparability between the products offered	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	

Lack of reliability of the ratings	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
Potential conflicts of interests	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
Lack of supervision and enforcement over the functioning of this market	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	

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

(1 = very poor, 10 = very good)

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

Please explain why:

5000 character(s) maximum

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

From a benchmark administrator perspective, we have seen the ESG ratings offerings we are using evolving over the last few years to become more:

- 1) Sector specific

- 2) Evidence and science-based
- 3) Holistic (more rooted in materiality, sourced from various public and private data sources)
- 4) Explainable in terms of methodologies used

However, several challenges remain, which include the following:

- Granularity at the company level: many underlying metrics of ESG ratings require a higher level of bottom-up input. For example, although Scope 3 GHG emissions data forms the largest part of many companies' total environmental score, estimation models used by providers still rely on extrapolating sector-level emissions data on to specific companies because of the general lack of company-reported data.
- Unexpected methodological changes by providers: this impairs the user experience and sometimes the investment product they offer based off of these data. Especially for major methodological changes of flagship products that are used by a lot of users, there needs to be a proper governance process and communication process around it.
- Data assurance and liability – Not specifically related to the ESG ratings themselves but rather in relation to the underlying data. The lack of standards for ESG data assurance and verifiability means that investors are reluctant to use potentially inaccurate data so as to avoid any liability through misjudgement for investment decisions. In specific example on climate related data, in its response to a recent TCFD consultation on forward-looking metrics, the Institute of International Finance noted that “In the absence of clear and robust verification practices to enable market discipline, it is possible for metrics to be manipulated, potentially resulting in greenwashing or mis-selling”. In this context, we welcome work around the Corporate Sustainability Reporting Directive (CSRD) and upcoming EFRAG standards, the ISSB work around a global baseline of sustainability disclosures as well as measures such as the EU Green Bond Standard.

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

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

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

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

Please explain your answer to question 1:

5000 character(s) maximum

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

We understand that a potential lack of correlation between ratings assessing the same sustainability aspects might be seen as inadequate or somehow reflective of a problem. In DBG's view, however, the lack of

correlation is not inherently problematic. What is paramount is that rating providers are transparent about the objectives of ratings and the underlying methodology and data collection and quality assurance processes. This will provide investors and rated entities with a greater degree of comparability and understanding of ratings. Policymakers should help to drive transparency, rather than consistency, of ratings.

To explain our views further:

On the investor side, indices that have similar objectives but are customized based on specific client needs can lead to different composition purely based on different opinions on the ESG profile of a company by different data providers. Especially for a passive player, that does not have the capacity or remit for deep company research and fundamental analysis, it can be hard to determine what causes such differences. Investors are increasingly basing their investment decisions on these ESG ratings, and unexplained, divergent views amongst different data providers can be challenging for the comparability of ratings and the indices that use them.

Still, ESG ratings, and the methodologies underlying them, are diverse because they reflect the fact that ESG issues and the views of different stakeholders on ESG issues are at once broad, evolving and varied. Moreover, the diversity in ratings approaches reflects market demand and presents investors with a multitude of analytical options to enhance risk-adjusted returns. Equally this approach allows to avoid herding behaviors which again mitigates the systemic risk that may result from uniform but 'wrong' ESG ratings used as input data for investment/portfolio decisions.

To what degree do you consider that a low level of correlation between various types of ESG ratings can cause problems for your business and investment decision, as an investor or a rated company, on a scale from 1 to 10 (1 = no problem, 10 = significant problem)

1 0 ?

(1 = no problem, 10 = significant problem)

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

Please explain your answer:

5000 character(s) maximum

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

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

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

	1	2	3	4	5	6	7	8	9	10	D kn l opi l ař c:
There is a lack of transparency on the methodology and objectives of the respective ratings	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
The providers do not communicate and disclose the relevant underlying information	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
The providers use very different methodologies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
ESG ratings have different											

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

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

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

Please explain your answer:

5000 character(s) maximum

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

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

For example, some investors focus on investment risk, others on company performance or impact, others still on transparency around E, S or G factors. Use cases range from performing best-in-class analysis, conducting screening, and actioning thematic investing to incorporation of ESG information in stewardship and voting activities. Some investors use the specific data underpinning ESG ratings to help them meet their own regulatory obligations or as part of their own proprietary evaluation tools and models.

Moreover, some investors focus on financial risk only, while others rely on a "double materiality" approach that contemplates both the financial impact on a company and a company's impact on the environment and the society. Each case requires different (or differently aggregated) data, resulting in a variety of types of ESG ratings.

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

(1 = very little, 10 = very much)

- 1 - very little
- 2
- 3

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

Please explain your answer:

5000 character(s) maximum

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

In DBG's view, the ESG research and data analytics business is not uniquely prone to potential conflicts of interest, including in comparison to the financial research and analysis industry as a whole. ESG ratings were, for the most part, specifically developed on an "investor-pay" business model as a market alternative to the substantial and unavoidable conflicts of interest under the "issuer-pay" credit rating model. We strongly agree that ESG research providers should take meaningful steps to eliminate or to manage and disclose all perceived or actual conflicts of interest.

From the provider point of view, ISS takes extremely seriously the potential for actual or perceived conflicts of interest, which might impact the integrity of our research and services. To that end, ISS has implemented extensive policies and procedures to identify, manage and disclose conflicts of interest, and adopted controls reasonably designed to manage each of those risks and to establish appropriate standards and procedures to protect the integrity and independence of the research, recommendations, ratings, and other analytical offerings produced by ISS. ISS provides its institutional investor clients with extensive information to ensure that they are fully informed of potential conflicts and the steps that ISS has taken to address them.

ISS supplies a comprehensive Due Diligence section on its public website. This section of the ISS website includes an area specifically dedicated to the policies, procedures and practices regarding potential conflicts of interest. These include established policies related to ISS' ownership structure on non-interference and potential conflicts of interest related to DB, Genstar Capital, and the board of directors of ISS Holdco Inc. to protect the integrity and independence of the Research Offerings produced by ISS. These policies are publicly available on the ISS website.

Additional policies include the ISS Code of Ethics, the General Code of Conduct, Conflict Mitigation Policies with respect to the ISS ownership structure, and the "Policy Regarding Disclosure of Significant Relationships," among others.

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

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

- 1 - hard to enter
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10 - easy to enter
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

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

In the last couple of years, smaller players have entered the market mainly by providing specialized data sets for more specific ESG objectives. Some examples include Equileap with their gender data set, as well as Iceberg Data Lab with their biodiversity data set. Many specialized data providers have also already been acquired by larger firms. Nevertheless, there exist some natural business requirements that can act as barriers to the market as outlined under the next two questions.

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.

Currently, while there is strong competition among providers, smaller providers can and do enter the industry. We've observed that the more successful providers cover a sufficiently large universe of rated entities to meet the requirements of investors, employ a sufficient number of skilled staff to support the covered universe, particularly analysts, and have strong data quality and internal governance mechanisms.

In our view, what may incentivize new market entrants, however, is more comprehensive and comparable corporate disclosure along with regulatory and international standard setter efforts to promote machine-readable quality ESG corporate disclosure. However, also in this regard the set of principles as defined under Question 36 could foster the competitiveness of smaller providers.

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

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

- 1 - does not allow
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10 - fully allows
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

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

Many smaller players have already been acquired by larger firms. As a benchmark provider we have repeatedly advocated for smaller ESG data providers, e.g. due to interesting methodologies, however received limited traction from clients who seem to be more comfortable working with "household" names.

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

(1 = not proportionate, 10 = very proportionate)

- 1 - not proportionate
- 2
- 3
-

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

Please explain your answer:

5000 character(s) maximum

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

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

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

III. Questions on the need for EU intervention

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

a) Need for an EU intervention

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

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

Please explain why:

5000 character(s) maximum

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

DBG strongly agrees with the principle that providers need to develop and deliver ESG offerings with a high level of independence, integrity and transparency. This is consistent with the abiding commitment of ISS, as an ESG ratings provider, to provide its institutional investor clients with independent, high-quality research and products in a consistent and transparent way, and to carry out its duties solely in the best interest of its investor clients.

If the Commission deems regulatory intervention warranted, DBG would support a principles-based approach designed to address the areas for improvement identified by IOSCO in its final report on environmental, social and governance (ESG) ratings and data products providers and the study on sustainability-related ratings, data and research. This approach could set clear and objective principles, a compliance structure, and an assessment mechanism to be administered by a supervising authority. Because the principle-based requirements can be universally applied regardless of provider size, they would help establish transparency across the entire industry and elicit disclosure that is appropriately tailored to each provider's unique facts and circumstances.

Importantly, if ESMA were to be designated the supervising authority, it would have direct insight into the development of the industry across the EU member states.

In our view, any regulatory intervention should focus on meeting investor needs and prioritize principles around good internal governance, transparency of methodology and ratings' objectives, conflicts of interest management, quality management, and safeguard the independence of ratings and ESG research generally. The disclosure should facilitate clarity and transparency and steer away from, and should not require, standardization of methodologies.

If well designed, this regulatory approach would be flexible and accommodate new market developments while encouraging new market entrants and preventing the exit of existing providers. This flexibility is critical because sustainable finance regulation is still largely in development and the foundational building block of corporate disclosure is just beginning to take shape. The ESG research industry has changed significantly within the last few years alone, and there is little reason to suspect the coming years will be an outlier. The flexibility is also warranted as we do not believe, nor have we seen, any type of systematic industry failings that would suggest a more rigid or prescriptive approach.

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

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

Please explain why:

5000 character(s) maximum

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

In our view, introducing an authorization or registration system risks introducing administrative and costly burdens that would not provide any additional value to investors, and may unintentionally disincentivize

some rating providers from operating in the EU. This is a particularly critical point for emerging companies and could constitute a prohibitive barrier to entry to companies that would not be in a position to cope with the compliance burden. Equally, larger service providers should not be saddled with additional costs and burdens that might divert their attention away from servicing their clients.

As noted above, we do not believe, nor have we seen, any type of systematic industry failings that would suggest an authorization or registration scheme is necessary.

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

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

Please explain why:

5000 character(s) maximum

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

DBG is concerned that, if adopted, this proposal would set an inappropriate regulatory precedent for the EU and globally and we urge the Commission not to pursue this proposed approach. We do not see a public policy justification for introducing regulation based solely on the location of a company's HQ or the listing of a financial instrument subject to ESG ratings. In effect, such regulation would amount to a tax on EU companies and non-EU companies' financial instruments listed in the EU. We believe this proposal may also undermine the EU's goal of facilitating sustainable investment and the movement towards a net zero economy.

Under the investor-pay model for ESG ratings, providers prioritize their investor clients' needs, among which is the coverage required by those clients. The proposal risks limiting the coverage universe of both companies and financial instruments, specifically targeting EU companies and non-EU companies' financial instruments listed in the EU, which, too, have a vested interest in having a wide coverage by multiple providers.

Finally, we are concerned that such regulation would lead to copy-cat regulation in other markets, creating a narrow focus on providers and less coverage to the detriment of investors, companies and the EU's sustainable finance goals.

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

- Yes
- No
-

Don't know / no opinion / not applicable

Please explain why:

5000 character(s) maximum

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

We agree that transparent application by providers of their respective ESG rating methodology(ies) is central to the credibility of ESG ratings. It is important for ESG ratings providers to provide transparency, particularly to their investor clients. We would point out that transparency can be effectively achieved in a way that also allows providers to preserve and protect their intellectual property rights which is also a critical element in thinking about this question.

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.

In our view, meaningful disclosure does not necessarily require a standardized template. We are also generally of the view that the more granular a template's standardized requirements, the more likely the disclosure will be perceived as just a "compliance" exercise. From the investor point of view, this may result in "boiler plate" disclosure. In that regard, providers should have sufficient flexibility to describe the methodology for each product in a way that directly responds to their clients' demands.

To the extent a high-level disclosure framework is viewed a desirable, it should be flexible and could follow current market best practices (e.g., summary section; product objective, covered asset class, thematic scope, materiality approach, investment approach/strategy the product caters to).

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.

DBG believes a principles-based regulatory approach could increase transparency among all providers and facilitate enhanced market confidence in the entire industry without the need for multiple regimes or regimes that are unduly burdensome or costly.

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.

Please note that we will approach the following set of questions from the perspective of an ESG ratings provider.

Because the nature and the scope of the potential authorisation/registration regime are undefined, including for third-country providers, there is not enough available information to quantify the high end of the one-off cost. In general, we strongly agree that a thorough cost-benefit analysis is necessary and appropriate in this case. If the Commission decides to move forward with an authorization or registration requirement, we encourage it to reassess the cost-benefit analysis with the availability of more information and through public consultation that can respond to a concrete proposal.

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

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

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

More than 160 hours

x

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

5000 character(s) maximum

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

Without insight into the extent of the contemplated disclosure, especially relative to the existing disclosure provided by ISS ESG, it is not feasible to forecast the associated compliance costs.

ISS ESG is dedicated to a high level of public transparency across our ESG research solutions. Our methodology, data governance and associated teams spend considerable time overseeing the methodologies applied by ISS ESG and providing quality assurance. ISS provides detailed public methodology overviews for each ESG product on our public website, free of charge, and additional comprehensive methodology documentation is provided to clients.

The dedicated Methodology Information webpage on our public website outlines our ESG research methodologies and the quality and research processes spanning our various ESG solutions. We provide market participants and the public with relevant information to understand how ISS ESG operates and the basis upon which we generate our analyses, form our conclusions and develop our assessments. As an example, the public disclosure for the ISS ESG Corporate Rating includes the measurement objectives of the ESG rating, the principal sources of qualitative and quantitative information used in the assessment, how the absence of information at the company level is treated; along with the time horizon of the assessment. Our methodology transparency ensures credible and reproducible results, serves to engage rated/analysed issuers and allows for flexible use and customization of deliverables by our investor clients.

Additionally, via the ISS ESG Gateway, ISS, on a voluntary basis, offers free public access to a range of high-level ISS ESG corporate ratings and scores as well as fund ratings. Information provided via the ISS ESG Gateway is updated monthly to reflect any changes to an entity's rating or score, and we plan to expand the list of available ratings.

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

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

Please explain your answer:

5000 character(s) maximum

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

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

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

If yes, please specify what type of cost and provide an estimate of its amount where feasible:

5000 character(s) maximum

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

IT costs are an important consideration, as is the cost of creating a dedicated internal compliance structure.

We also note that compliance costs are generally impacted by the substance as much as the location and format of disclosure.

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.

In our view, the CRA regulation was designed to address conflicts of interest unique to the credit rating agency industry – specifically, conflicts arising from the issuer-pay business model - and account for the specific use cases of credit ratings. Unlike credit rating agencies, however, providers of ESG ratings generally function as “research houses” that serve and are paid by their investor clients. As such, CRAs and ESG rating providers manage distinctly different conflicts of interest, are generally accountable to different clients and, as such, should not be folded into the same regulation.

As the EC consultation alluded to earlier under section I, the use cases for ESG ratings are multiple and varied and ESG ratings are often but one input into investment analysis. In short, ESG ratings serve different purposes in financial markets than credit ratings which tend to have a singular and unique purpose.

As mentioned earlier, however, we support and agree that ESG research providers should take meaningful steps to eliminate or to manage and disclose all perceived or actual conflicts of interest.

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.

Depending on the scope, an authorization or registration regime could raise uncertainty about market access in addition to introducing potentially substantial costs for providers. Smaller providers would be less likely to absorb the costs and may pass on the costs to their investor clients.

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

-

Not at all

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

Please explain your answer:

5000 character(s) maximum

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

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

5000 character(s) maximum

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

With respect to weighing benefits relative to compliance costs as part of a cost-benefit analysis, we believe a regulatory or a supervisory framework only serves investors, providers and the market if it facilitates clarity and meaningful disclosure, encourages market competition and prioritizes independent research and advice.

To summarize our earlier points, we believe that a regulatory approach that goes beyond a principles-based approach risks unduly hindering the ESG rating provider industry at an early point in the evolution of ESG data and research in addition to potentially precluding new market entrants and curtailing providers' ability to keep pace with ESG market developments and satisfy investors' varied and evolving needs. ESG data and research providers such as ISS ESG are partners to investors in their quest to understand the complex and changing universe of ESG risks.

In this regard, we encourage the EC to be mindful of the potential impact of regulation on the development of the industry and the ability of providers to meet investors' needs by providing them with the high quality, flexible, independent and cost-effective offerings that they require.

Questions for supervisors

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

Negligible time

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

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

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

PART B - Incorporation of ESG factors in credit ratings

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

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

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

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

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

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

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

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

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

I. Questions to users of credit ratings

Do you use credit ratings for investment decisions?

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

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

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

Please explain your answer:

5000 character(s) maximum

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

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

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

Please explain your answer:

5000 character(s) maximum

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

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

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

Please explain your answer:

5000 character(s) maximum

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

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

Please select as many answers as you like

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

Does the level of disclosure differ depending on individual CRAs?

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

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

Please select as many answers as you like

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

Please explain your answer:

5000 character(s) maximum

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

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

- CRAs have sufficiently improved the incorporation of ESG factors in their methodologies and rating process
- In general CRAs have sufficiently improved the incorporation of ESG factors in credit ratings although some CRAs are lagging behind
- In general the development is insufficient although some CRAs have improved the incorporation of ESG factors in their methodologies and rating process
- CRAs have insufficiently improved the incorporation of ESG factors in their methodologies and rating process
- Don't know / no opinion / not applicable

Please explain your answer:

5000 character(s) maximum

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II. Questions to Credit Rating Agencies

Do you explicitly incorporate ESG factors in your methodologies?

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

Please explain your answer:

5000 character(s) maximum

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

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

Please select as many answers as you like

- Environmental factors
- Social factors
- Governance factors
- Other sustainability related factors

Please explain your answer:

5000 character(s) maximum

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

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

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

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

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

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

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

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

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

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

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

Please select as many answers as you like

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

Please explain your answer:

5000 character(s) maximum

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

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

Please select as many answers as you like

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

Please explain your answer:

5000 character(s) maximum

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

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

Please select as many answers as you like

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

Please explain your answer:

5000 character(s) maximum

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

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

Please select as many answers as you like

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

Please explain your answer:

5000 character(s) maximum

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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

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

5000 character(s) maximum

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

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

Please explain your answer:

5000 character(s) maximum

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

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

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

Additional information

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

The maximum file size is 1 MB.

You can upload several files.

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

abd2e1c1-305c-4e11-bb94-d31590ecb0b1

/DBG_Response_EC_on_the_functioning_of_the_ESG_ratings_market_in_the_European_Union_and_on_pdf

Useful links

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

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

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

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

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

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

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

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