

MEMO# 34022

February 2, 2022

SEC Staff's 2021 Report on NRSROs Includes ESG-Related Examination Findings

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TO: ICI Members
ESG Advisory Group
ESG Fund Disclosure Working Group
ESG Public Company Disclosure Working Group
SUBJECTS: ESG
Fixed Income Securities RE: SEC Staff's 2021 Report on NRSROs Includes ESG-Related Examination Findings

The SEC's Office of Credit Ratings recently issued its annual report on nationally recognized statistical rating organizations for calendar year 2021.[\[1\]](#) The Report, among other matters, summarizes the staff's findings from its most recently completed examination of each NRSRO, including issues identified in connection with NRSROs offering an increasing number of environmental, social, and governance (ESG) related products and services.

Staff examined NRSROs offering: (i) evaluations of the environmental benefits of a project financed with the proceeds of a green bond issuance; (ii) ESG scores based on the expected impact of ESG factors on a company's growth, profitability, capital efficiency, and risk exposure; and (iii) assessments of a company's risk from climate-related scenarios.

The Report notes that these products and services are not credit ratings and therefore are not directly regulated by the Office of Credit Ratings.[\[2\]](#) The Report goes on to state that the staff has identified several areas of potential risk to NRSROs from providing these products and services, including that in incorporating ESG factors into credit ratings determinations, NRSROs may not be:

- adhering to their methodologies or policies and procedures,
- consistently applying ESG factors,
- making adequate disclosure regarding the use of ESG factors applied in rating actions, or
- maintaining effective internal controls involving the use in ratings of ESG-related data from affiliates or unaffiliated third parties.

The Staff also identified the potential risk for conflicts of interest if an NRSRO offers credit ratings and non-ratings ESG products and services.^[3]

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endnotes

^[1] SEC Staff Report on Nationally Recognized Statistical Rating Organizations (January 2022) (Report), available at <https://www.sec.gov/files/2022-ocr-staff-report.pdf> For simplicity, the memorandum refers to NRSROs and their affiliates as NRSROs.

^[2] See Report at note 12.

^[3] See Report at page 8.

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