

MEMO# 34029

February 8, 2022

ESMA's Call for Evidence Regarding ESG Ratings

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TO: ICI Members

ICI Global Members

ESG Advisory Group

ESG Task Force

EU ESG Disclosure Regulation Working Group SUBJECTS: ESG

International/Global RE: ESMA's Call for Evidence Regarding ESG Ratings

On 3 February 2022, the European Securities and Markets Authority (ESMA) published a Call for Evidence on Market Characteristics for ESG Rating Providers in the European Union (EU), which is in a form of a survey addressed to three target groups: ESG rating providers, users of ESG ratings, and entities subject to rating assessment of ESG rating providers.[\[1\]](#) The responses are due to ESMA by 11 March 2022.

Background

In January 2021, ESMA wrote to the European Commission (EC), observing that the unregulated nature of ESG ratings and data assessments posed a potential risk to investor protection and advising it to develop appropriate regulatory requirements to ensure quality and reliability of ESG rating products.[\[2\]](#) In July 2021, the European Commission announced that it would take action to strengthen the reliability, transparency, and comparability of ESG ratings by the first quarter of 2023.

In November 2021, the EC requested that ESMA conduct a call for evidence, which resulted in the current consultation. ESMA intends to deliver the feedback from this consultation to the EC by end of Q2 2022, and it is anticipated that the feedback will serve as a foundation for the EC's own public consultation on the ESG ratings and data market.

Definitions - Connection to the IOSCO's Work on the ESG Ratings and Data Products

The Call for Evidence uses the terms "ESG ratings" and "ESG data products", as they were defined by the International Organization of Securities Commissions (IOSCO) in its Final Report on Environmental, Social and Governance (ESG) Ratings and Data Products Providers (published in November 2021).[\[3\]](#)

Consultation Questions

The consultation questions are divided into three sections, each targeting a group:

- ESG Rating Providers - to establish a picture on their number, size, business models, staff, corporate structure, and business offerings. The questions inquire about the client profile and suitable purposes for the ESG ratings, as well as whether the provider is established outside/inside the EU.
- ESG Ratings Users - to assess the products they use from ESG rating providers. The questions aim to first establish the legal and regulatory characteristics of entities contracting with ESG rating providers. Then the questions aim to assess what products they are using, for which objectives, the nature of the licensing agreements and whether any limitations are placed on the use of this data. The questions also ask users to explain any shortcomings in the ESG rating or ESG data products, as well as if users are satisfied with the level of methodological transparency for the products, including transparency around data sourcing.
- Entities covered by ESG rating providers - to identify potential risks to investor protection, related to conflicts of interest management. It looks into the nature, frequency and transparency of interactions between rated entities with ESG rating providers.

The consultation also asks:

- For views on the level of relevance of ESG ratings to EU financial markets and financial market participants
- For views on the level of risk ESG ratings currently pose to orderly markets, financial stability and investor protection in the EU, and whether this level would increase in the coming years.

Anna Driggs
Director and Associate Chief Counsel
ICI Global

endnotes

[1] See https://www.esma.europa.eu/file/122727/download?token=Uj7nO_-K.

[2] See https://www.esma.europa.eu/sites/default/files/library/esma30-379-423_esma_letter_to_ec_on_esg_ratings.pdf

[3] For the IOSCO's Final Report, see <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>, and for ICI's Memorandum summarizing the Final Report, see Memorandum 33922 (dated 24 November 2021), available at <https://www.ici.org/memo33922>.