

Mr John Berrigan
Director General
Directorate General for Financial
Stability, Financial Services and
Capital Markets Union
European Commission
Rue de la Loi /Wetstraat 200
1049 Brussels, Belgium

Ref: Outcome of ESMA Call for Evidence on Market Characteristics of ESG Rating and Data Providers in the EU

Dear Mr Berrigan, *dear Sean,*

I am pleased to be able to provide you with ESMA's overview of the market for ESG rating providers in the EU which is a key topic under both the European Commission's Strategy for Financing the Transition to a Sustainable Economy¹ and ESMA's Sustainable Finance Roadmap².

As requested in your correspondence of 12 November 2021, ESMA has conducted a public call for evidence to gather information on the nature and scale of the market for these products in the EU³. We are confident that the strong interest to this call for evidence has enabled us to draw some conclusions that will prove useful for the European Commission's deliberations⁴. While our main line of enquiry has been to establish the number of ESG rating providers active in the EU, we are also pleased to provide ancillary information on the characteristics of these provider and their business models that may be of relevance for your staff's considerations. Based on our initial analysis, these conclusions generally confirm the concerns raised in ESMA's letter to Commissioner Mairead McGuinness in January 2021⁵.

Our input is structured to first provide a short introduction to the broader context in which this call for evidence was launched, and the key objectives that have guided its development. After this, we provide the key findings, both overall, and for the different categories of respondents. Finally, we close by outlining our view on the nature and scale of this market in the EU.

¹ [COM \(2021\) 390 final Strategy for Financing the Transition to a Sustainable Economy](#)

² [ESMA Sustainable Finance Roadmap 2022-2024](#)

³ [ESMA80-416-250 Call for Evidence on ESG Rating Providers in the EU](#)

⁴ In total, 154 responses were received across the three categories of respondent from which input was sought.

⁵ [ESMA30-379-423, Letter to European Commission on ESG ratings and assessment tools](#)

Background

Before discussing the findings arising from the call for evidence, I would like to first draw your attention to some of the main developments in this area at international level. First, at a global level, IOSCO's Task Force on Sustainability has recently conducted a similar stock-taking exercise and delivered a set of recommendations for ESG rating and data providers⁶. As co-chair of the workstream that delivered this report, we are pleased that IOSCO has taken a first, clear step to signal securities regulator's expectations on the quality, reliability and transparency of these products. Second, we are seeing a growing momentum amongst regulators and supervisory bodies in a number of jurisdictions to assess whether there is a need for specific regulatory intervention in this area to address issues such as transparency, governance and conflicts of interest^{7,8,9}. At the same time, we are also seeing regulators of credit rating agencies in other jurisdictions begin to assess whether these products pose issues that are relevant to their supervisory mandates¹⁰.

For these reasons, we are pleased that the European Commission is actively engaging on this topic through the publication of its own consultation on the functioning of the market for ESG ratings in the European Union¹¹. This consultation demonstrates the European Commission's commitment to taking a leading role on this important topic and will help maintain the momentum of recent actions under the Strategy for Financing a Transition to a Sustainable Economy.

Objective of Call for Evidence

The core objective of our call for evidence has been to develop an understanding of the market for ESG rating providers active in the EU¹² as well as to gather the views of users and entities covered by ESG ratings. To achieve this, we split the call for evidence into three parts. The first part sought input directly from ESG rating providers, the questions here aimed to establish providers' legal status, ownership structure, level of resourcing and business model. The second part sought input from entities using ESG rating products. The questions here aimed to establish the nature of their engagement with ESG rating providers and the characteristics of any contractual arrangements. The third and final part of the call for evidence sought input from entities that are covered or "rated" by these providers. The questions in this part aimed to establish the nature of covered entities' interaction with ESG rating providers and any associated costs. In totality, we considered that responses from these three categories would provide us with a reliable overview on the main characteristics of the market.

⁶ [FR 09/21 November 2021 Environmental, Social and Governance \(ESG\) Rating and Data Products Providers](#)

⁷ [United Kingdom FCA CP21/18 Enhancing climate-related disclosures by standard listed companies seeking views on ESG topics in capital markets](#)

⁸ Securities and Exchange Board of India – Consultation Paper on Environmental, Social and Governance (ESG) Rating Providers – 24/01/22

⁹ Financial Services Agency Japan – Establishment of Technical Committee for ESG Rating and Data Providers – 17/02/22

¹⁰ [US SEC Office of Credit Ratings Staff Report on Nationally Recognised Statistical Rating Organizations January 2022](#).

¹¹ [Targeted Consultation on the functioning of the ESG ratings market in the European Union and on the consideration of ESG factors in credit ratings](#)

¹² The term "active in the EU" is used to refer to ESG ratings providers who are either, for example, located in the EU, have clients who are based in the EU or who are located outside the EU but provide ESG ratings on entities that are headquartered in the EU.

Overview of Findings

In total we received 154 responses to the Call for Evidence split over the three categories of respondent. Based on careful consideration our principal finding is that the number of ESG rating providers currently active in the EU is 59¹³. This figure is derived from a combination of information provided by ESG rating providers, users and entities covered by ESG rating providers.

Based on a cross comparison with the responses to the IOSCO consultation, and other publications^{14,15}, we now consider this number to be a reliable indicator for the size of the market in the EU.

The analysis of the responses to our call for evidence indicates a number of key characteristics and trends. First, the structure of the market among providers is split between a small number of very large non-EU entities on one hand, and a large number of significantly smaller EU entities on the other. The EU entities providing ESG ratings can largely be characterised as small or medium sized enterprises. While the legal entities of respondents were spread out across almost half of the EU Member States, a large number of these were clustered in only three Member States. The predominant business model is investor-pays, however, provision of ESG ratings on an issuer-pays basis is more prevalent than anticipated and was indicated in around a third of responses from providers.

Second, the majority of users of ESG ratings are typically contracting for these products from several providers simultaneously. Their reasons for selecting more than one provider are most notably to increase coverage, either by asset class or geographically, or in order to receive different types of ESG assessments. A majority of users contract with a small number of the same rating providers, indicating a degree of concentration in the market. The most common shortcomings identified by the users were a lack of coverage of a specific industry or a type of entity and insufficient granularity of data. Complexity and lack of transparency around methodologies were also cited as an issue.

Third, entities covered by these products are required to dedicate at least some level of resourcing to their interactions with ESG rating providers, although the amount is largely dependent on the size of the rated entity itself. Most of these entities highlighted some degree of shortcoming in their interactions with the rating providers, most notably on the level of transparency as to the basis for the rating, the timing of feedback or the correction of errors.

Finally, as part of this call for evidence we sought input on the relevance of these products to EU financial markets and investors, as well as the potential risks that they may pose. While not directly connected to our assessment of the nature and characteristics of the market for

¹³ This figure has been calculated on the following basis: 34 ESG Rating Providers responding to the section ESG rating providers + 25 ESG rating providers that were identified by respondents to the section Users of ESG ratings = 59 ESG rating providers active in the EU. Given the lack of a universal definition of ESG ratings, and the potential for some ratings products having been self-classified as data products and vice versa, a strict approach to categorisation is challenging. As a result, this figure should still be understood as indicative rather than definitive.

¹⁴ See Annex III of [FR 09/21 November 2021 Environmental, Social and Governance \(ESG\) Rating and Data Products Providers](#)

¹⁵ [AMF Provision of Non-Financial Data: Mapping of Stakeholders, Products and Services](#)



these providers, we would be happy to discuss our findings with your staff in the near future should this be useful for your purposes.

Conclusion

We consider the feedback we have received on the market for ESG rating and data providers is indicative of an immature but growing market, which, following a number of years of consolidation, has seen the emergence of a small number of large non-EU headquartered providers. In our view this market structure bears some resemblance to that which currently exists for credit ratings. Similar to that market¹⁶, there are a large number of smaller more specialised EU entities co-existing with larger non-EU entities who provide a more comprehensive suite of services.

We trust that you find this input useful for a possible assessment around the need for introducing regulatory safeguards for ESG rating products. I would like to reiterate ESMA's support for the leadership that the European Commission is demonstrating on this important topic. My colleagues at ESMA stand ready to elaborate on any of the points raised as part of this assessment.

Should you have any follow up questions or wish to discuss the topic further, please do not hesitate to get in contact.

Yours sincerely

[signed]

Verena Ross

¹⁶ [ESMA80-416-197 – 22/12/21 Report on CRA Market Share Calculation](#)

Annex I

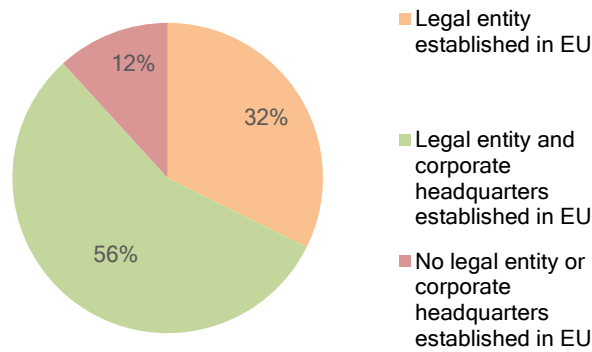
1 Methodology for Collecting Evidence

1. To gather the input for the call for evidence, the consultation was split into three separate parts, with the first part addressed to ESG rating providers, the second addressed to users of ESG ratings and the third to ESG rating providers. Each section included questions that would enable a degree of quantitative analysis, as well as two questions intended to gather more qualitative input. To ensure consistency of terminology we cross-referenced the terms for ESG ratings and ESG data products that had been published in IOSCO's report.
2. Given the limited timeframe to collate and analyse the responses that were received, this primarily quantitative approach has proven beneficial to deliver an initial set of key findings. We consider that given further time to cross-reference answers from different categories of respondents it may also be possible to deliver additional insights into some of these findings.
3. Nevertheless, we must point out some of the limitations presented by the sample of responses. First, not all questions were answered by all respondents in each category. This has resulted in the findings for some questions being based on a smaller sample size than others. Second, not every question was understood in the same manner by all respondents in each category. This has required an element of intuition and interpretation in certain cases to ensure cross comparability, most notably on questions relating to revenues. Third, the data sample of respondents is not replicated across the different respondent categories and cannot be understood as being fully representative of the views of all providers, users or covered entities. For example, the ratio of respondents from different member states is not replicated across the respondent categories and it does not provide an equal weighting among users of differing levels of scale and complexity. Finally, the weighting of responses in the section addressed to entities covered by ESG rating providers is heavily weighted towards the financial sector. To ensure full transparency on the data sample for each question we have included the number of responses on which the findings were based alongside the results either in the tables or footnotes.
4. In total, we received over one hundred and fifty responses to the call for evidence, spread across the three categories. The breakdown of respondents per category was 34 ESG rating providers¹⁷, 75 users of ESG ratings and 47 covered entities.

¹⁷ The vast majority of respondents (30) to this section answered in the affirmative when asked whether they provided ESG Ratings. Of the remaining (4) respondents, who answered in the negative, ESMA considers that two of these cases are at least borderline. Given the lack of a universal definition of ESG ratings, and the potential for some ratings products having been self-classified as data products and vice versa, ESMA has considered all respondents to the ESG rating providers section of the Call for Evidence as ESG rating providers.

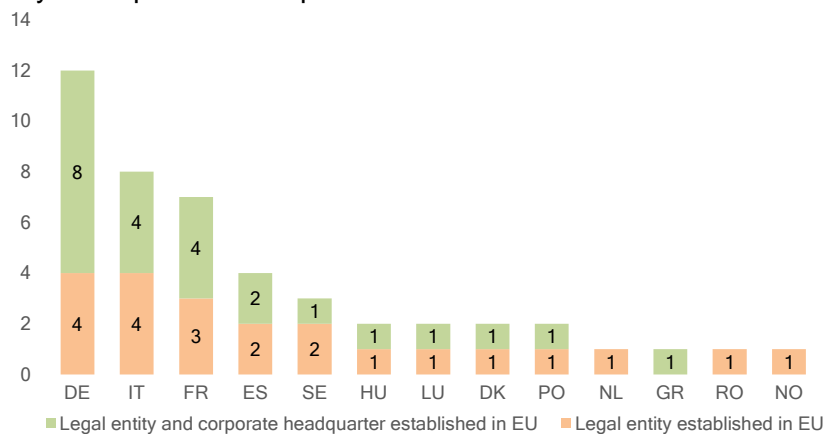
2 Breakdown of Responses - ESG Rating Providers

2.1 Nature of establishment



Note: Share of respondents by nature of establishment
Sources: ESMA

5. We received 34 responses from ESG rating providers, however not all respondents addressed each question. 11 respondents have at least 1 legal entity established in the EU, 19 have the legal entity and corporate headquarters established in the EU, and 4 have no legal entity or corporate headquarters established in the EU.¹⁸



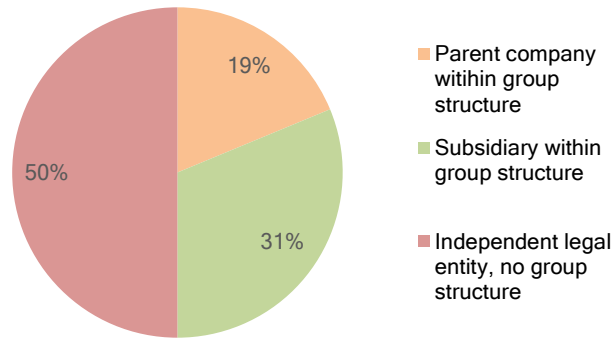
Note: Number of respondents with one or more legal entity in EU or with headquarters in the EU, by country.
Source: ESMA

6. Of the respondents located in the EU, three member states (Germany, Italy and France) accounted for the location of a majority of their headquarters or legal entities while some respondents indicated more than one country in which they are established.¹⁹

¹⁸ Based on a total of 34 responses

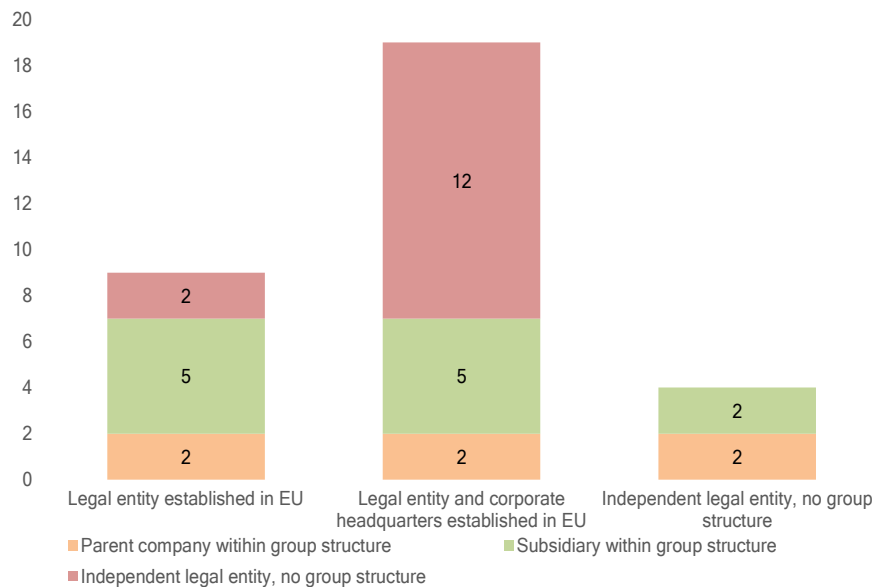
¹⁹ Based on a total of 34 responses

2.2 Nature of legal entity



Note: Share of respondents by nature of legal entity
Source: ESMA

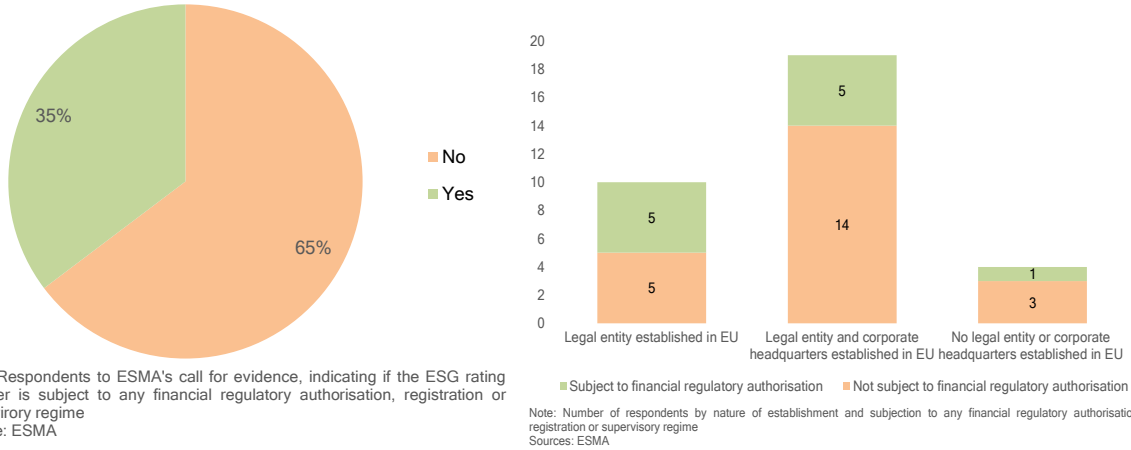
7. Half of the respondents indicated that they are an independent legal entity without a group structure. The other half are either parent companies or subsidiaries of a group structure. Combining this information with the nature of establishment, the majority of ESG rating providers are independent legal entities (no group structure) established in EU.²⁰



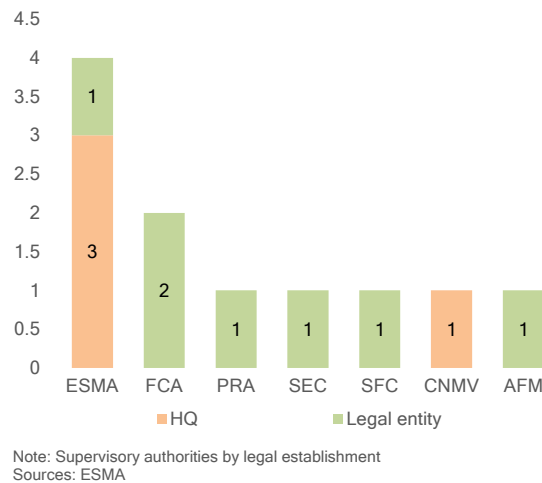
Note: Number of respondents by nature of establishment and nature of legal entity
Source: ESMA

²⁰ Based on a total of 32 responses.

2.3 Financial regulatory authorisation, registration or supervisory regime²¹



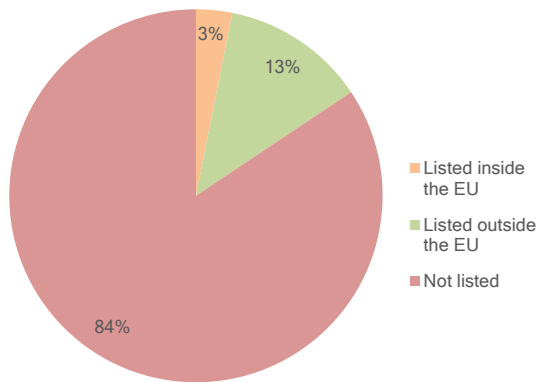
8. Around a third of respondents (12) reported that they are currently subject to a financial regulatory authorisation, registration or supervisory regime, while 22 responded that they are not²². Of the 12 respondents that replied in the affirmative, a total of 9 different regulatory frameworks and 7 supervisory authorities were mentioned as relevant. However, these frameworks relate to services other than ESG ratings and data.



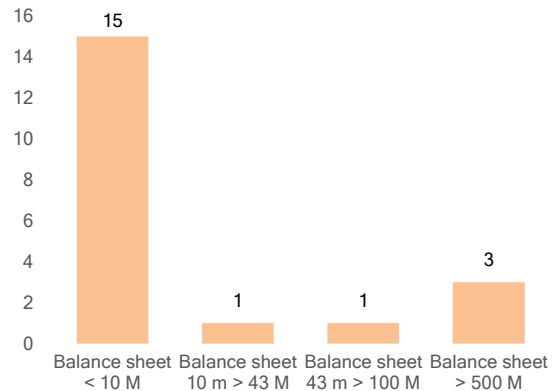
²¹ Note: An ESG rating provider may be supervised by more than one supervisory authority.

²² Based on 34 responses. The breakdown by nature of establishment covers 33 responses.

2.4 Corporate structure and financials



Note: Share of respondents by corporate structure
Source: ESMA



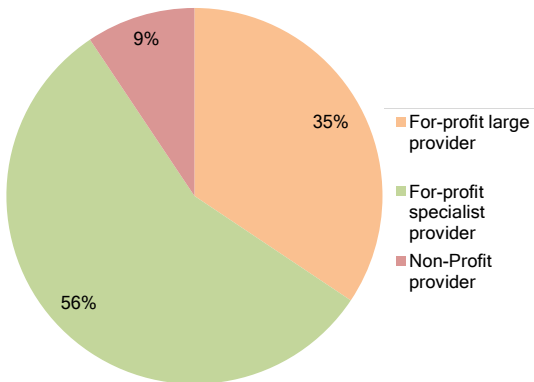
Note: Number of respondents by balance sheet figures in 2021
Sources: ESMA

9. The majority of ESG rating providers that responded outlined that they are not publicly listed (27 respondents, 84%). Amongst respondents that are publicly listed, 1 ESG rating provider is listed inside the EU and 4 are listed outside the EU.²³ Out of 21 respondents, 15 ESG rating providers (71%) had a balance sheet of less than 10 million euros in 2021 (most of the responses provided for 2019 and 2020 were identical).²⁴

²³ Based on 32 responses.

²⁴ Based on 20 responses. When gathering input on the size of ESG rating providers, we asked for details on balance sheet size, and selected thresholds that are aligned with the European Commission's categorisation of small and medium sized enterprises. The basis for selecting balance sheet size, as opposed to another metric such as annual revenue, was to account for possible situations where providers may have been offering these products below cost, in order to build up market share. Using balance sheet size as a metric, we are still able to gauge the relative size of providers, even where they would be engaging in this type of behaviour.

2.5 Nature of business model²⁵

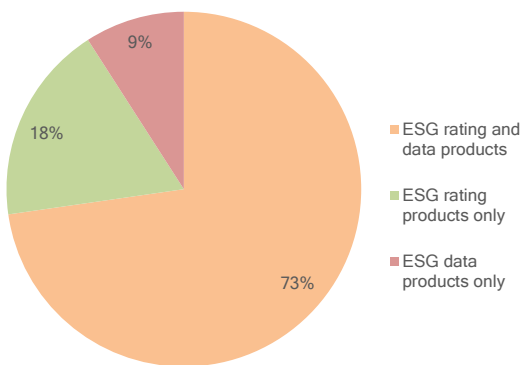


Note: Share of respondents by business model
Source: ESMA

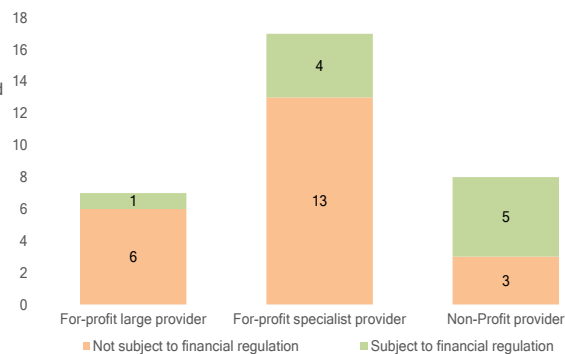


Note: Number of respondents by business model and nature of legal entity
Source: ESMA

10. A majority of respondents indicated that they are “for-profit specialist providers”, with around a third of respondents indicating that they are “for-profit large providers”²⁶. A large majority of ESG rating providers outlined that they also offer other ESG data products (73% of respondents).²⁷



Note: Share of respondents by type of products provided
Source: ESMA



Note: Number of respondents by business model and subject to any financial regulatory authorisation, registration or supervisory regime
Source: ESMA

2.6 Revenues

11. The annual average revenue of respondents for 2020 amounted to EUR 22.7 million (EUR 23.7 million for EU-based providers). In comparison, the median was EUR 5.5 million (EUR 3.8 million euros for EU-based providers). We consider these figures indicate a relatively large number of providers with small revenues.

²⁵ Respondents to the Call for Evidence were requested to describe their business model as one of (a) For-profit large provider: offering ESG ratings, ESG data products as well as non-related financial information products or services (b) For-profit specialist provider: offering ESG ratings and ESG data products (c) Non-Profit provider: offering ESG rating and ESG data products.

²⁶ Based on 32 responses. The breakdown by business model covers 31 responses.

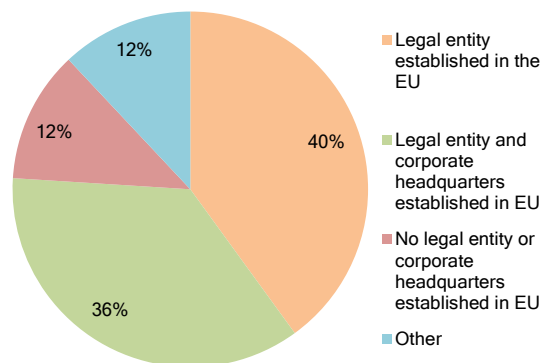
²⁷ Based on 33 responses. The breakdown by subject to financial regulation covers 32 responses.

12. The breakdown of annual revenues by products per respondent indicates that average annual revenues for ESG ratings accounted for EUR 6.1 million whereas average revenues derived from other ESG data products was EUR 2.2 million. Average revenues derived from EU clients represented EUR 7 million.

	Revenues Total	Revenues EU clients	Revenues ESG ratings	Revenues ESG data products
Median revenue (EUR) ²⁸	5,500,000	1,000,000	276,000	1,000,000
Average revenue (EUR)	22,688,691	7,101,911	6,131,889	2,275,626
Response Sample Size	13	19	10	7

3 Breakdown of Responses – Users of ESG Ratings

3.1 Nature of establishment



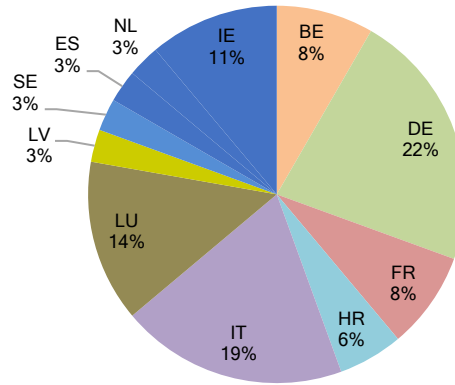
Note: Share of respondents (users of ESG ratings), by nature of establishment
Sources: ESMA

13. When asked for details on the nature of their establishment in the EU, 30 respondents indicated that they have either one or more legal entities established in the EU, while 27 respondents indicated that they have both their headquarter and a legal entity established in the EU.²⁹ The majority of respondents with only a legal entity in the EU (i.e. not headquarterd) are located in Germany (22%) and Italy (19%), followed by Luxembourg (14%) and Ireland (11%). Belgium and France account for 8% of established legal entities,

²⁸ The median has been rounded up to the closest 10,000 (e.g., 510,000 instead of 508,600)

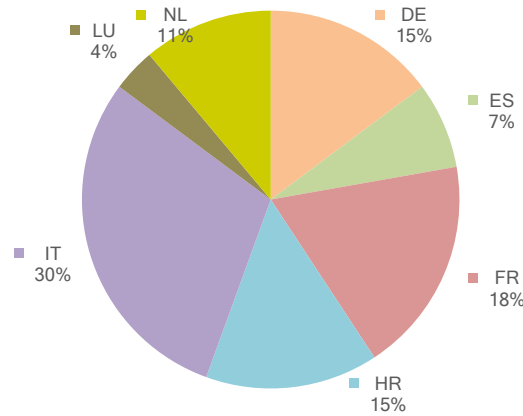
²⁹ Based on 75 responses. The count of entities indicated as 'others' includes five industry associations.

followed by Croatia (6%) and Latvia, Sweden, Spain, Ireland and the Netherlands (3% each).



Note: Respondents (users of ESG ratings) with one or more legal entity established in the EU, by country.
Sources: ESMA

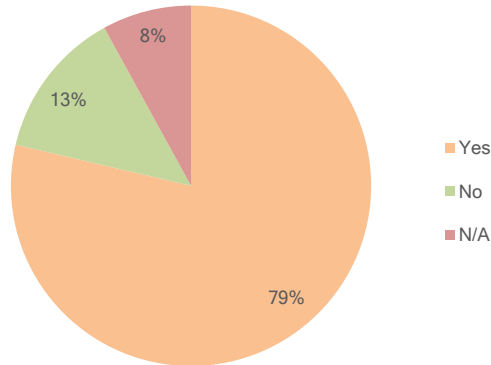
14. Out of the 27 respondents with their headquarter and a legal entity established in the EU, 30% are headquartered in Italy, 18% in France, followed by 15% in Croatia and Germany respectively. 11% are headquartered in the Netherlands, 7% in Spain and 4% in Luxembourg.



Note: Respondents (users of ESG ratings) with a legal entity and corporate headquarters established in the EU, by country.
Sources: ESMA

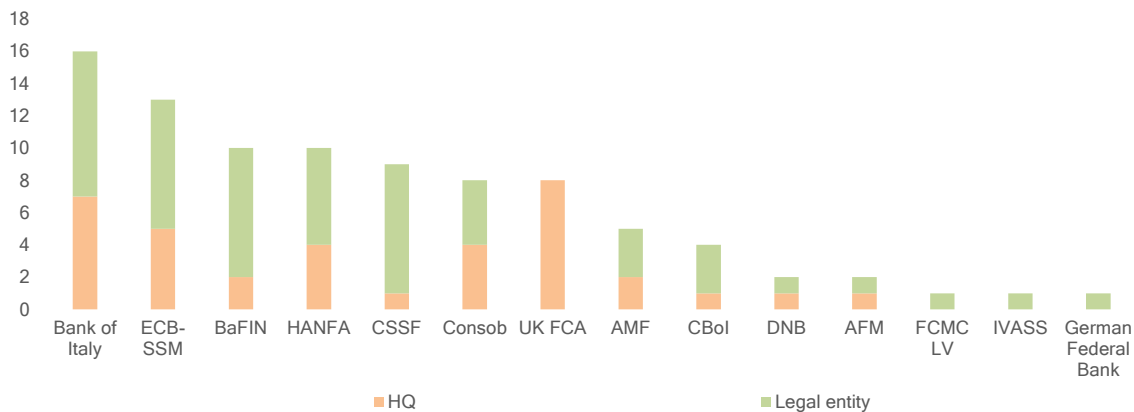
15. Out of the 9 respondents that do not have any legal entity or corporate headquarters established in the EU, 7 indicated that they have their headquarters in the UK.

3.2 Financial regulatory authorisation, registration or supervisory regime



Note: Share of respondents (users of ESG ratings) subject to existing financial regulatory authorisation, registration or supervisory regimes
Source: ESMA

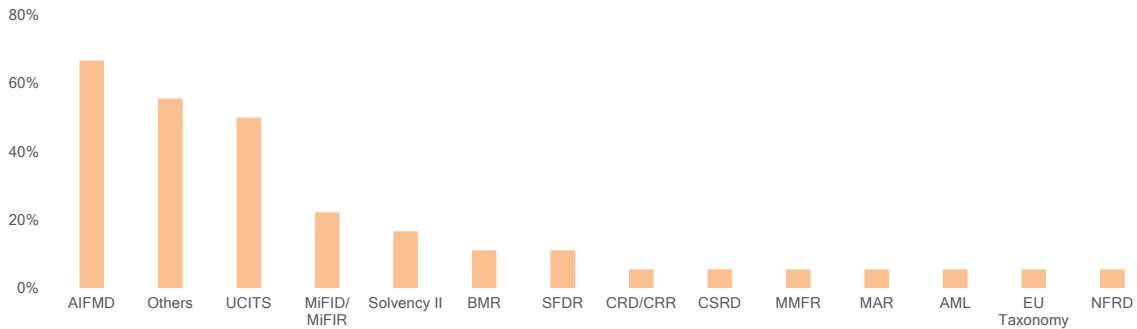
16. A large majority of users of ESG ratings are subject to existing financial regulatory authorisation, registration or supervisory regimes.³⁰ Out of these, a further 47 respondents have provided insight into the supervisory authority they are registered with, with some entities indicating that they are registered with more than one supervisory authority. More than two thirds (71%) indicated they were registered with securities market’s supervisory authorities, but roughly 30% also reported to be registered with central banks.



Note: Respondents (users of ESG ratings) by supervisory authority they are registered with. Some respondents mentioned more than one supervisory authority.
Source: ESMA

17. A further 18 respondents have provided insight into the regulatory framework they are subject to. Out of these 18 respondents, the majority referred to AIFMD (67%) and UCITS (50%), followed by MiFID/MiFIR (22%), Solvency II (18%), BMR (12%) and SFDR (12%). Additionally, 59% of respondents also indicated to be subject to a set of various national regulatory frameworks, alongside the ones listed above.

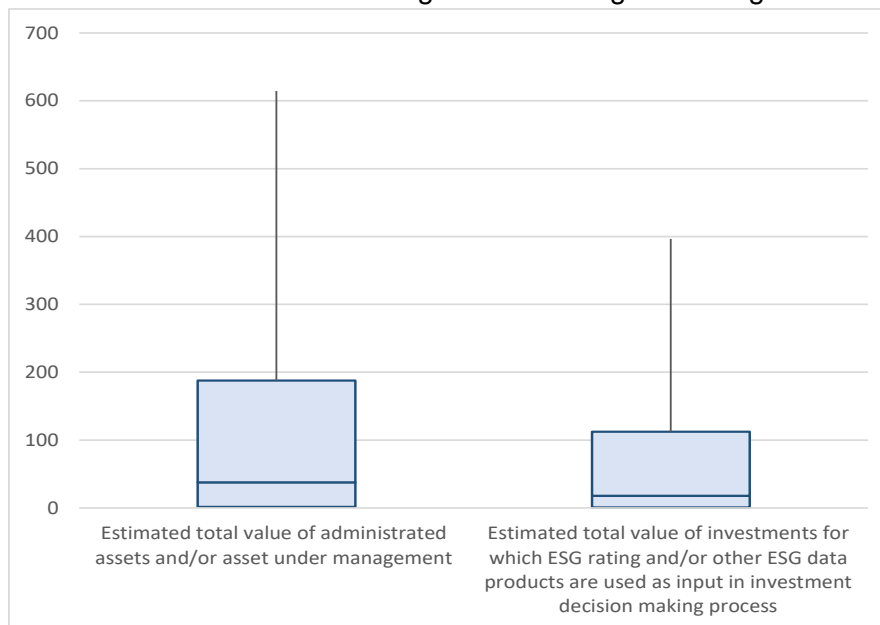
³⁰ Based on 69 responses.



Note: Respondents (users of ESG ratings) by regulatory regime they are subject to, in % share of all respondents. Some respondents mentioned more than one regulatory regime.
Source: ESMA

3.3 Estimated total value (EUR) of Assets under Administration and/or Assets under Management

18. The total value of assets managed by respondents amounted to EUR 7,824 billion.³¹ The average value of assets under management (AuM) amounted to EUR 190.8 billion, and the median to EUR 36 billion. The very high standard deviation (EUR 409.3 billion) highlights a combination of small and large asset managers amongst the respondents.³²



3.4 Estimated total value (EUR) of investments for which ESG rating and/or other ESG data products are used as input in investment decision making process

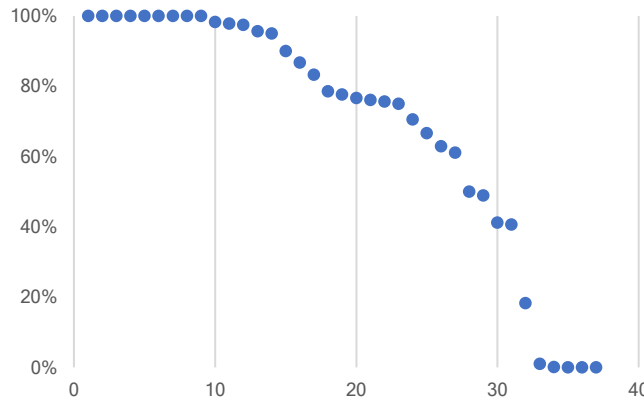
19. Respondents indicated that the total value of investments for which ESG rating and/or other ESG data products are inputs in the investment decision making process is EUR 3,787 billion (i.e. 48% of total assets under management).³³ The average per respondent was

³¹ Based on 41 responses. To avoid double counting, these figures exclude assets reported by custodians, consultancies and industry associations and answers by respondents indicating '0'. A total of 3 responses were excluded.

³² The end of the lines in the boxplot chart correspond to 10th and 90th percentiles. The outside edges of the box correspond to the 25th and 75th percentile. The line in the middle of the box corresponds to the median.

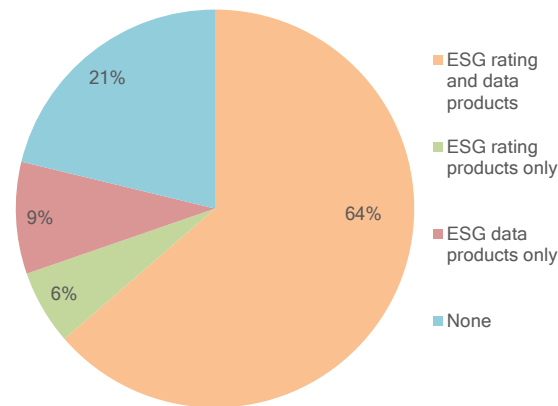
³³ Based on 38 responses.

EUR 97 billion (50% of average assets under management) and the median was EUR 17 billion.³⁴ The share of investments for which ESG rating and/or other ESG rating products are used as input varies widely across respondents, ranging from 0% to 100%.



Note: Share of investments for which ESG ratings and/or ESG data products are used as input in the investment decision making process in % of total assets under management. Each unit on the horizontal axis corresponds to one respondent.
Source: ESMA

3.5 ESG rating or ESG data products contracted for by users



Note: Share of respondents (users of ESG ratings) by type of ESG product they currently contract for.
Source: ESMA

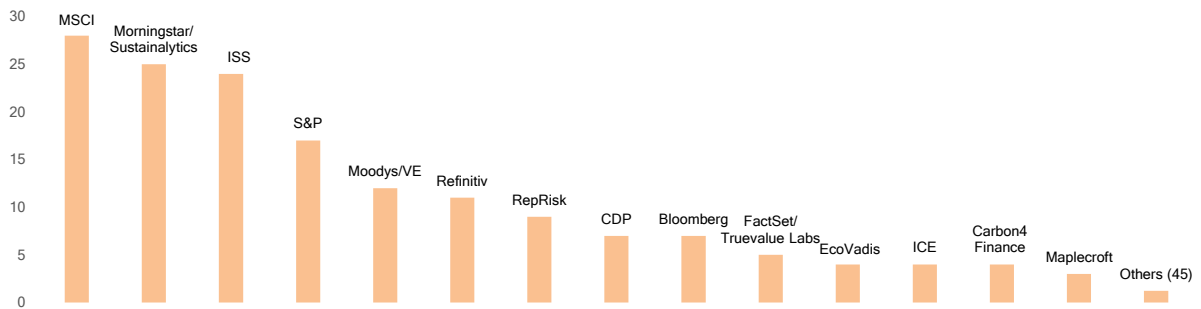
20. A significant majority of the 66 respondents (42) indicated that they use both ESG ratings and other ESG data products, while 4 respondents indicated to only use ESG ratings and 6 respondents only other ESG data products.³⁵ 14 respondents indicated to not use either type of products.

³⁴ One entity responded to Q6 (value of investments using ESG ratings) but not Q5 (assets under management), therefore the figures provided in % of AuM exclude this respondent.

³⁵ Based on 66 responses.

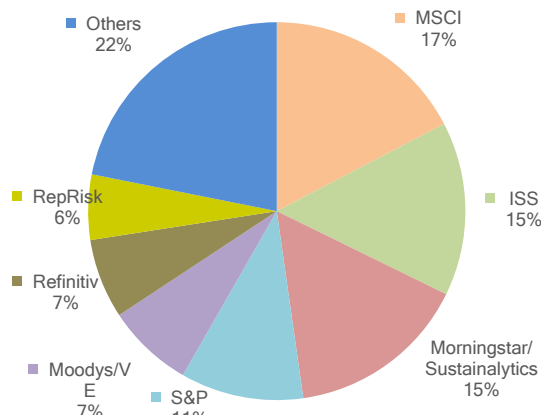
3.6 Selection and Use of Multiple ESG rating providers

21. Of the 34 respondents to this question, 77% use more than one provider for ESG ratings, while 23% use only one provider³⁶. The ESG rating providers most frequently mentioned were MSCI (28 mentions) followed by Morningstar/Sustainalytics (25), ISS (24), S&P (17), Moody's/VE (12), Refinitiv (11), RepRisk (9), CDP and Bloomberg (7 each), FactSet/Truevalue Lab (5), EcoVadis, ICE and Carbon4Finance (4) and Maplecroft (3). The 'Others' were mentioned only once or twice by respondents.



Note: ESG providers used by respondents (users of ESG ratings), by count of mentioning.
Sources: ESMA

22. In relative terms, MSCI has the highest share of mentions (17%), followed by Morningstar/Sustainalytics and ISS (both 15%), S&P (11%), Moody's/VE and Refinitiv (7% each) and RepRisk (6%). The 22% 'Others' consist of all providers which have been mentioned less than 9 times.³⁷

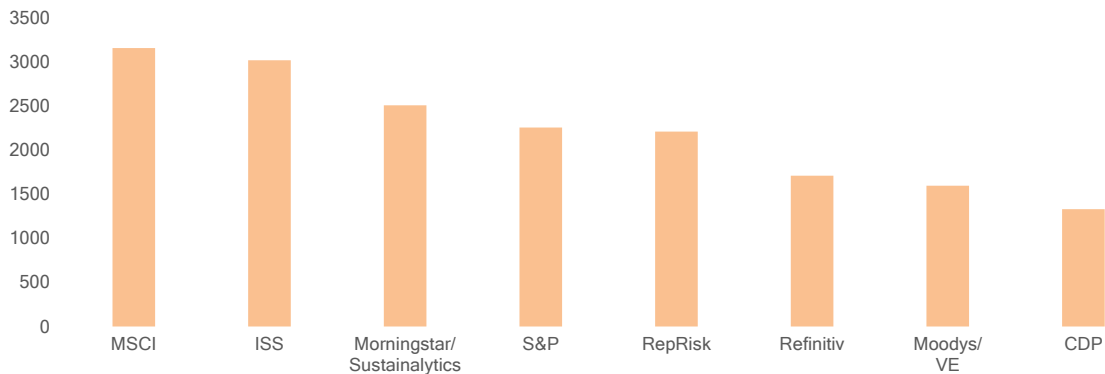


Note: ESG providers by number of responses mentioning each data provider (responses can mention one or more providers), divided by universe of respondents (n=45). Includes both ESG rating providers and other ESG data product providers.
Sources: ESMA

³⁶ Based on 44 responses.

³⁷ Note that 'Others' here includes everything mentioned by the respondents, including consultancies and classification schemes (e.g., GRI, Climate Bonds Initiative etc.). Excluding these would increase the relative market share of the seven respondents included in the graph.

23. Per investment value the following figures were reported: MSCI (EUR 3.2bn) and ISS (EUR 3bn), followed by Morningstar/Sustainalytics (EUR 2.5bn), S&P (EUR 2.3bn), RepRisk (EUR 2.2bn), and Refinitiv (EUR 1.7bn), Moody's/VE (EUR 1.6bn) and CDP (EUR 1.3bn).³⁸



Note: ESG providers by estimated investment value for which their product is being used, in EUR bn. Providers below a value of EUR 1 billion have been excluded for visual purposes.
Source: ESMA

3.7 Contractual Engagement with ESG rating providers

24. Of the 11 respondents that provided concrete details on the contractual lengths of their engagement with ESG providers, the average contractual length for ESG rating products is assessed as being approx. 20 months, with a minimum of 12 months and a maximum of 60 months. Of the 14 respondents who indicated how long they have been contracting with ESG rating providers the average length for which they have been contracting for these products was approx. 67 months, with a minimum of 1 month and maximum of 218 months respectively.

25. One respondent indicated that their contract runs for a duration of a minimum of one year, with the possibility to renew or extend the contract each year, however this is often accompanied by a price increase. In addition, transparency issues seem to exist regarding the minimum term and fee rates of ESG data and rating contracts, leading to different users contracting for the same ESG products under differing contractual terms.

3.8 Reasons behind the choice of the ESG rating or data provider(s)³⁹

26. In general terms, users of ESG ratings indicated that they tend to opt for several providers, in order to fulfil a variety of needs, such as asset type coverage, geographical coverage, compliance with regulatory reporting requirements, and type of ESG assessment provided

³⁸ These estimates were computed by matching the figures provided by respondents to question 6.2.1. Q6 (estimated total value of investments for which ESG ratings and/or other ESG data products are used as input in investment decision making process) with the different providers listed by the respective entities. Note that the answers did not specify which precise amount of the estimated total relates to each specific provider, hence the full amount was used for each provider listed by the respondent, which may lead to over-estimation or under-estimation of certain providers.

³⁹ Based on 46 responses.

(e.g., focus on Environmental or Social and Governance factors, in form of risk assessment or impact assessment).

27. From the responses received, the most commonly sought attribute in an ESG rating provider (more than 70% of ESG rating users) was the depth and breadth of data coverage.
28. Due to the variety of asset types covered by many of ESG ratings providers, users agreed that the choice tends to be related to the entities which can provide more accessible and complete analysis for their customers, in terms of type and number companies assessed and ESG data and the variety of key performance indicators that are offered.
29. The second most sought after attribute from ESG rating providers (34%) was data quality and transparency of methodologies and data. The importance of this attribute seemed to be often mentioned as a key factor also for reputational risk management and transparency to the users' clients.
30. Another important factor in users' choices is the market relevance of an ESG rating provider, there were two main reasons for this. First, the usability of data and ratings of a larger provider in the market is higher and allows for more comparability in the industries. Second, users tend to listen to clients' preferences, which might match with the most relevant providers in the market. Ease of data access and integration into own system and data usability is also an important factor.
31. For contractual purposes, users mentioned two main key drivers: price-quality ratio and existing commercial relationships with the company that provides ESG ratings. A slight minority also mentioned the reputational aspect of the ESG rating provider as key driver of the choice.

3.9 Reasons for choosing more than one ESG rating provider (if applicable)⁴⁰

32. ESG ratings users were overwhelmingly in agreement that more than one ESG rating provider is needed to allow for the holistic assessment of an ESG profile of the entity or issuer. In this regard, divergence between different rating providers seems to be significant due to the level of specialisation of ESG ratings provided in a given set of data, geography and sector, which creates a fragmented framework of ESG rating products offered.
33. More than 70% of respondents agreed that the main reason for relying on more than one ESG rating provider is to broaden the coverage of entities as well as to complement their analysis with additional data points and compare between different ratings. Often, ESG ratings users noted that given the early stages of the ESG rating market and absence of standardisation, contracting with multiple ESG rating providers offers the possibility to validate the ratings obtained by each of them. A minority of users noted that contracting with various ESG rating providers is mainly driven by their clients' preferences.

⁴⁰ Based on 38 responses.

3.10 Views on shortcomings in the ESG rating or ESG data products currently contracted for⁴¹

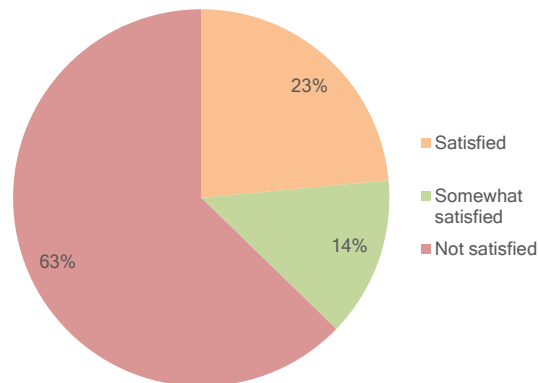
34. In general, users tended to agree on some main shortcomings that they identified in their experience with one or multiple ESG rating providers.

35. First, as expected respondents identified a lack of coverage on industry, type of entity and granularity of data, which seems particularly an issue for SMEs and non-listed companies, as having a fundamental impact on the usability and relevance of ESG ratings. In addition, users also highlighted:

- Low levels of transparency of methodologies and of data sources were identified as the most relevant factors hampering the reliability of the final ratings and their comparability between ESG rating companies.
- Lack of comparable and standardised data, together with a proven low correlation between ESG ratings provided by different entities, and a misalignment on the definition of “ESG”, were identified as major challenges.
- As data used by a number of ESG rating providers is drawn exclusively from publicly available sources, SMEs can be disproportionately disadvantaged when it comes to levels of coverage.
- The need for an alignment of definition and approaches concerning what is meant by “ESG” and what is the purpose of an ESG rating (e.g., the objective of the rating can vary).
- Delays in updating the underlying data of ESG ratings, and frequent unavailability or late responsiveness to error reporting or comments submitted by companies (especially on unsolicited ratings). Users often outlined that in their view ESG rating providers lack an adequate number of skilled resources to ensure timely follow-up on their portfolios.
- Some respondents observed a “US-bias” resulting from the increasing market concentration of ESG rating providers, especially US-based, which brings some challenges for EU users. Respondents had the view that some methodologies are consistently biased towards larger and/ or listed companies, as well as US industries, while EU companies, whose operations are more strictly correlated with their geography (and their national regulations), are penalised by the models used.
- Commercial terms - Increase in prices applied to users and conflict of interest risks have also been highlighted as key issues for users. Recent increase in market concentration among ESG rating providers is seen as a driver behind changes in pricing policies, and increasing prices, which are considered an issue for a relevant number of users.

⁴¹ Based on 51 responses.

3.11 Views on levels of methodological transparency, including transparency around data sourcing⁴².



Note: Share of respondents satisfied, somewhat satisfied or not satisfied by the level of methodological transparency for the product.
Source: ESMA

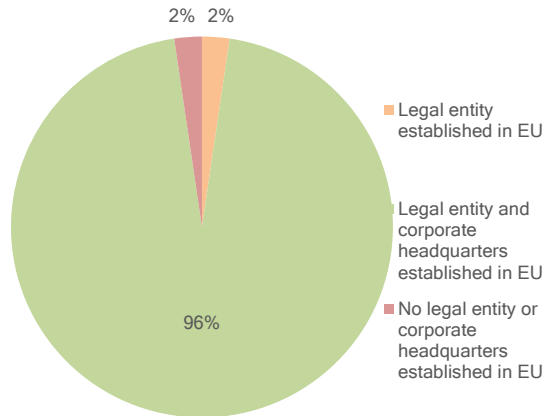
36. In general, the key issues for respondents around methodologies were the importance of data accuracy as well as transparency on rating process and data sources. Respondents were also strongly in favour of EU wide measures being considered in order to limit the mis-selling and misuse of ESG ratings.

37. While it was commonly agreed that the level of methodological transparency varies across providers, 32 respondents (63%) argued that the level of methodological transparency is still not satisfactory. In this respect, only 7 respondents (23%) were of the view that levels of transparency and disclosure were improving, but even among these, it was suggested that more could be done to improve disclosures by rating providers. Methodologies were deemed as often too complex and unclear, and sometimes providers were not able to further clarify how their results had been determined. This raised questions about the level of reliability.

⁴² Based on 51 responses.

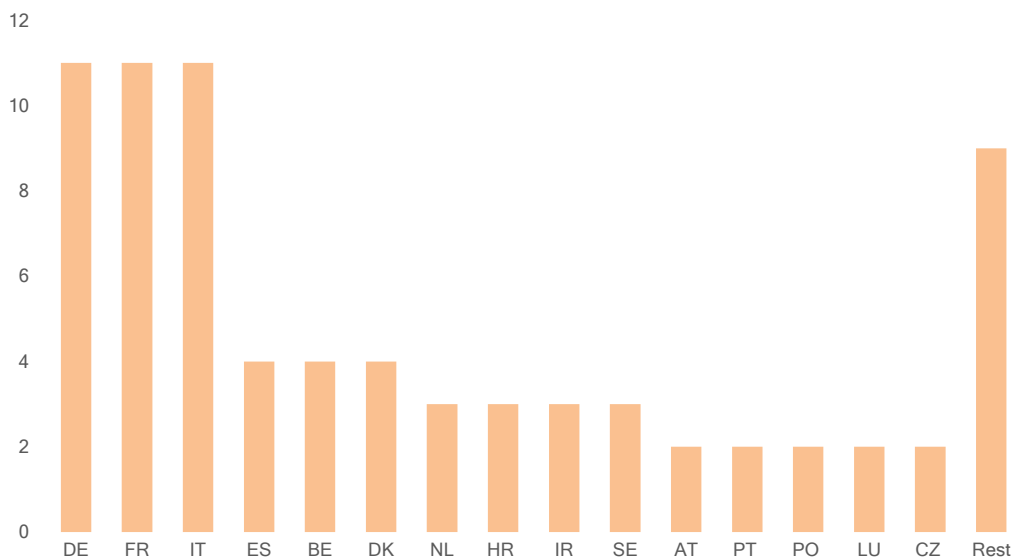
4 Breakdown of Responses – Covered Entities

4.1 Nature of establishment



Note: Share of respondents by nature of establishment
Source: ESMA

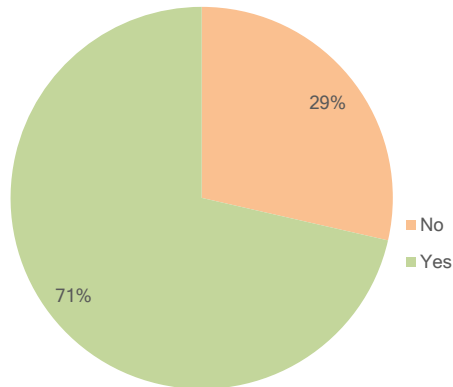
38. Of the 43 covered entities that responded to the call for evidence, 41 have their corporate headquarters established in EU, 1 has a legal entity established in the EU, 1 has no legal entity or corporate headquarters in EU.⁴³ When asked to identify the member states in which they were located a majority of the respondents outlined that their legal entity and corporate headquarters in the EU were domiciled in either Germany, France or Italy.



Note: Number of legal entities and/or headquarters established in the EU, by country.
Source: ESMA

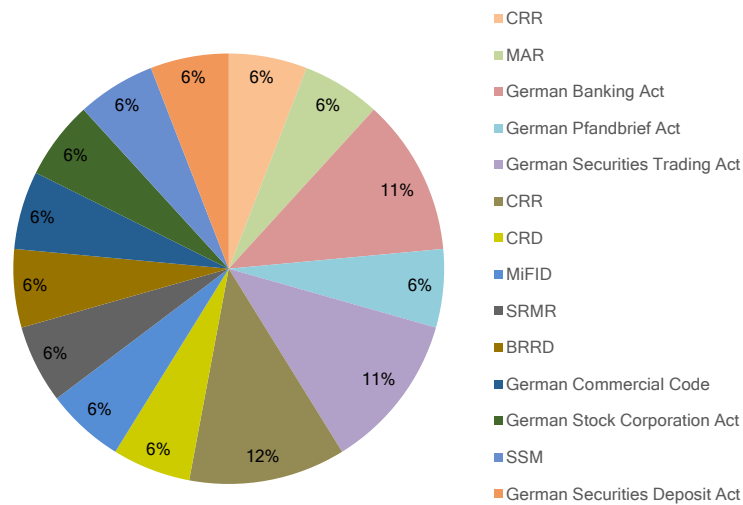
⁴³ Based on 43 responses.

4.2 Financial regulatory authorisation, registration or supervisory regime

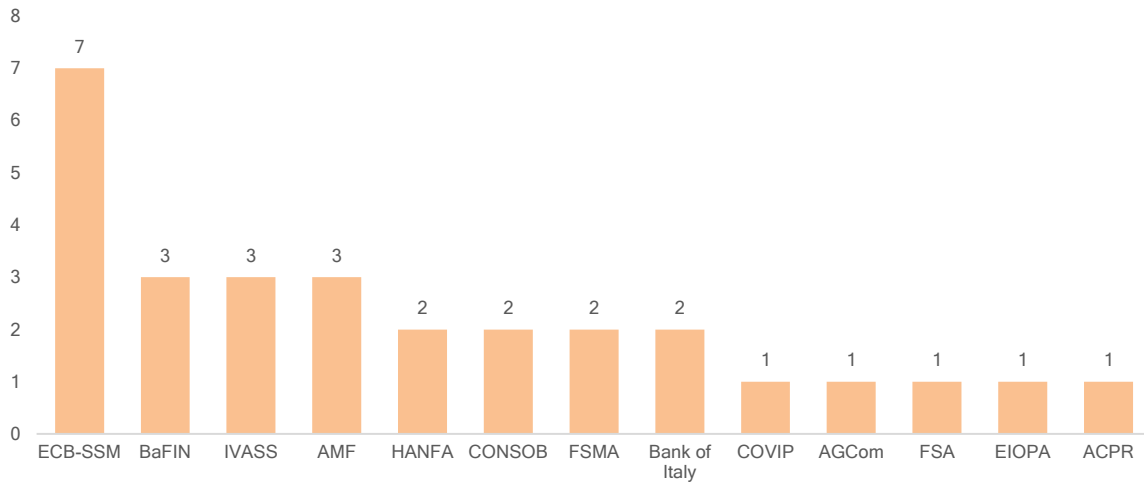


Note: Share of respondents subject to any existing financial regulatory authorisation, registration or supervisory regime
Source: ESMA

39. Of the 42 respondents who confirmed whether or not they were subject to a financial regulatory authorisation, registration or supervisory regime, 30 responded that they are, while 11 responded that they are not. Those respondents who are subject to a financial regulatory regime fall under a broad variety of (either national or EU-wide) regulatory regimes. Of the 30 respondents here, 21 provided information on the supervisory authority they are registered with.



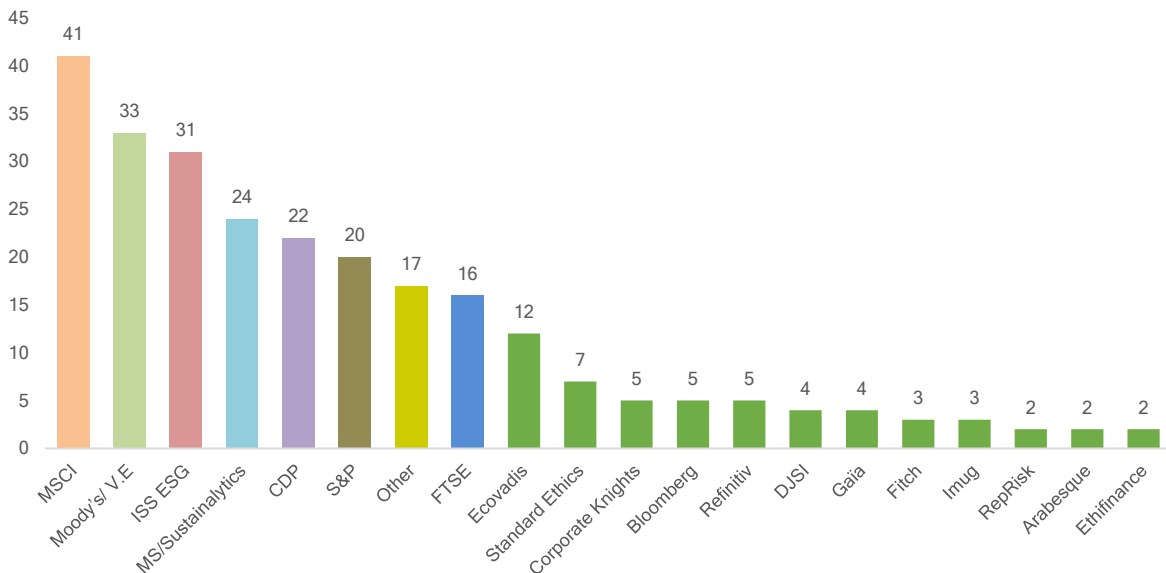
Note: Share of respondents by financial regulatory regime they are subject to.
Source: ESMA



Note: Number of covered entities mentioning supervisory authorities.
Source: ESMA

4.3 ESG rating providers that provide a rating for your company

40. The ESG rating providers mentioned most frequently as providing ESG ratings on their company were: MSCI (41 mentions), Moody's/VE (33), ISS (31), Morningstar/Sustainalytics (24), CDP (22), S&P (20), FTSE-Russell (16) and Ecovadis (12).⁴⁴



Note: Number of covered entities mentioning ESG rating providers.
Source: ESMA

41. Respondents further indicated that they had been rated for an average of 7 years by ESG rating providers. However, in a few cases this extends to a much larger time period, up to more than 20 years.

⁴⁴ Based on 37 responses.

4.4 Interactions with ESG rating providers providing ESG ratings for covered entities

42. The most frequent means for these entities to interact with ESG rating providers was through the use of IT platforms, that are accessible through ratings providers' websites. It is through these platforms that covered entities can provide input to questionnaires and provide comments. However, it was also noted that interactions through e-mails are common, followed by conference calls. At the same time, it should be noted that some covered entities reported no contact at all with the rating providers.

4.5 Communication and opportunities for error correction

43. Mostly, covered entities reported that the opportunity to correct any errors depends on the providers. Most of the providers do have this possibility in place, often before the rating is published, mainly through their IT platforms, thus giving the opportunity to comment on the draft report and receive feedback where available.

44. In this respect general issues with these interactions were highlighted:

- For unsolicited ratings, the general level of communication with the agencies is deemed low, thus also undermining the opportunity to report errors when identified. In this case, covered entities usually are not notified of the publication of their ratings, and only in limited cases they can provide feedback to the ESG rating providers in case of comments.
- When the opportunity to comment or report feedback is given, this is quite often reported as a slow and difficult process, which can also take several months, leading to distort ESG evaluations that are publicly available.
- Usually, identifying errors and their relevance to the final rating can be a cumbersome and difficult process, made more difficult by the lack of transparency around key inputs to the rating process.
- Some entities noted that some providers offer the opportunity to identify and communicate errors for an additional fee.
- Some entities also reported notable difficulties to receive objective reasons for the ratings assigned, due to the unavailability of transparent rating processes and methodologies.