

Comment

of the German Insurance Association (GDV)

ID-number 6437280268-55

on the

Targeted Consultation on the functioning of the ESG Ratings market in the European Union and on the consideration of ESG Factors in credit ratings

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GDV answers within the ESMA online questionnaire:

1. Questions for investors, asset managers and benchmark administrators

Do you use ESG ratings?

- Yes, very much
- Yes, a little
- No

Please explain

We answer this questionnaire as the German insurance association (GDV), which more than 450 members representing over 95% of the insurance market in Germany with total investments of 1.8 trillion EUR.

The need for ESG ratings and -data has increased significantly in recent years for insurers due to new regulatory requirements, like SFDR, Taxonomy, MIFID II, IDD or CSRD and Solvency II. Moreover, insurers increasingly use ESG ratings voluntarily for own sustainability strategies and assessments. It will further increase as regulatory requirements continue to grow.

ESG ratings are in particular integrated into the investment decision process and the controlling process to systematically assess ESG risks and opportunities. They also play an important role because of the increasing sustainability-related focus of many companies.

Which type of ESG ratings do you use (non-exhaustive list – multiple answers possible):

ESG ratings providing an opinion on companies:

- 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

ESG ratings providing an opinion on investment funds or other financial products (please specify which financial products):

- Investment funds
- Others (comment box)
- exposure to and management of ESG risks
- impact on the society and environment

- ESG characteristics
- Other specialised ratings
- None
- Not applicable

To what degree do you use ESG ratings in investment or other financing decisions on a scale from 1 to 10 (1- very little, 10 – decisive)?

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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, please specify

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

- Yes
- No
- Not applicable

If you responded yes to the previous question, what other services do you buy?

Insurers use a variety of ESG-related products. Often these are purchased as a package of several products. Some examples of products used by our members beside ESG Ratings: ESG-Reporting services, EU regulation package (SFDR/Taxonomy), raw ESG data like climate risk data/climate metrics, biodiversity metrics, ESG controversies, UNGC compliance, exclusion criteria, Business Involvement screening, Sector-Based Screening CO2-data, Impact and SDG analysis. However, looking at the industry as a whole, smaller insurers in particular tend to use individual ratings rather than packages.

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?

No.

What are you using ESG ratings for? (multiple choice)

- 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).

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

- Yes
- No

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

Examples for such documents are: Pre-contractual information to the customer, Regularly statements based on SFDR or EU-Taxonomy-requirements, Corporate Social Responsibility Reports/Sustainability Reports as well as Stewardship Reports.

What do you value and need most in ESG ratings:

- 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

To what degree to you consider the ESG ratings market to be competitive and allows for choice of ESG rating providers at reasonable costs, on a scale from 1 (not competitive) to 10 (very competitive)?

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2. Questions for companies subject to ratings

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

- Yes
- No
- Comment box

Larger insurers are themselves subject to ratings. They regularly have access to those ratings they respond to and their results. The depth of score analysis depends on whether a license is paid or not. In doing so, issuers are aware that the data to which they have access is different from that data which investors acquire or have access to.

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, on a scale from 1 (not determinant) to 10 (determinant)?

8

Unmanaged risks that are highlighted by ratings and are deemed to be of priority/special concern by the affected company usually receive a high level of attention and are treated as a result of the rating results/insights, provided this is in accordance with local regulations.

Do you provide information on ESG ratings you have received in any of your public documents?

- Yes
- No
- No opinion

If you responded yes to the previous question, please specify where you disclose this information:

Rating results and targets (if applicable) are published, for example, in the Annual (Group) Report and the Sustainability (Group) Report. In addition, rating results may also be communicated separately when the results are published.

3. Questions for all respondents

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

- Yes
- No
- No opinion

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 (not at all) to 10 (very much)?

- Growth in demand from investors for ratings and associated, detailed ESG data of companies to inform investment decisions **10**
- Growth in demand from companies for ratings including on rating future strategies
- Further standardization of information disclosed by companies and other market participants **9**
- Other

If you responded 'other' to the previous question, please specify the other reasons you see for this market to continue to grow

Although we expect the market to grow, we expect the number of ratings agencies to continue to consolidate and align.

Are you considering to use more ESG ratings in the future?

- Yes, to a large degree
- Yes, to some degree
- No
- No opinion

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

The need for ESG ratings has increased significantly in recent years for insurers due to new regulatory requirements, like SFDR, Taxonomy, MIFID II, IDD or CSRD and Solvency II. It will further increase as regulatory requirements continue to grow. In addition, insurers are increasingly focusing on sustainability on a voluntary basis and implement internal ESG strategies with the help of ESG ratings, among other things.

ESG ratings are in particular integrated into the investment decision process and the controlling process, where ESG factors already play an important role. This itself will result in a need to use such ratings. Materiality of ESG ratings may also increase if improvements in transparency and comparability are achieved in the future.

However, from the perspective of rated companies, it should be noted that some companies are actively trying to reduce the number of ratings they respond to, focusing on the most reputable, useful and all-encompassing ratings to reduce reporting and response burden. However, the

number of ratings used also is subject to whether the ratings remain relevant for the company's business and whether the quality of the ratings remains high or if there are new ratings that will become relevant in the future.

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
- Not applicable

If you use mostly or exclusively ratings from large ESG rating providers, what are the main reasons for this?

The main reasons to use ratings mostly from large ESG-providers are better data quality and coverage and increased usefulness and relevance for investors and decision-making bodies.

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

- Yes
- No
- No opinion

If you responded 'no' to the previous question, please explain why

The question is not so much whether there are enough ratings, but whether there are enough high-quality ratings - in the EU, but also elsewhere.

We do notice a bias towards US governance systems in many ratings though and a penalization of European companies for adhering to European/German norms and regulation. High quality EU alternatives would be helpful to overcome this challenge.

Finally, do you use other types of ESG assessment tools than ESG ratings (e.g. controversy screening, rankings, qualitative assessments, etc.)?

- Yes
- No

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?

Other types of ESG assessment tools than ESG ratings are very important and crucial for ESG integration and decision-making processes. Third-party independent ESG data provides unbiased and reliable data which is useful in decision-making processes.

Do you believe that due diligences carried out by users of ESG research are sufficient to ensure an acceptable level of quality?

- Yes
- No

If you replied 'no' to the previous question, would you see merit in refining the current definition of research under Directive 2014/65/EU1?

Potentially. Some users of ESG research may not be familiar with the shortcomings of certain rating methodologies and may not know how accurately the data was sourced and assessed. It would therefore be helpful to ensure that all ratings need to meet a certain threshold. However, an EU-only initiative would not be as helpful as a global initiative in order to account for global portfolios of globally active companies and improve comparability.

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?

Comparability of rating agencies is a significant shortfall and challenge as each rating has a different methodology and scope. In addition, some rating agencies do not communicate in a transparent way how exactly companies are assessed or for example, what specific thresholds are used per KPI indicator to achieve full score. Additionally, the impact of media controversies varies significantly by rating agency. Some have very low thresholds, whilst others hardly pick up any controversies which impact scores.

II. Functioning of the ESG ratings market

How do you consider that the market of ESG ratings is functioning today?

- Well
- Not well

Please explain

The need for ESG ratings and -data has increased significantly in recent years due to new regulatory requirements and will further increase as regulatory requirements continue to grow. Another reason for the growing importance is the increasing sustainability-related focus of many companies.

At the same time, the existing market structures are not suitable for fully meeting the requirements of users of ratings and data. Of particular concern are the low levels of standardization and transparency of methods, data availability (data are often based only on estimates), low comparability of ratings as well as potential conflicts of interest and high barriers to market entry. The need for comparability, the broad coverage of ESG assessment and the resource/expertise intensive nature of sustainability research and ratings have already led and will continue to lead to strong concentration in this market. As a result, ESG ratings and data providers are developing into oligopolistic structures, with increasing costs for accessing ESG ratings/data and freedom of choice among providers decreasing.

From a user perspective, an EU initiative should help minimize such costs and avoid market participants being forced to rely on third-party providers, while also enhancing the comparability and reliability of data, research and ratings (currently problematic due to differences in definitions, data sources, methodologies, frequency of data collection).

It should also be noted, that, while prices for the products increase every year significantly, it is at the same time hardly possible for companies to change data providers, as the conversion of already established calculations and processes would involve a considerable organizational effort that is not affordable. A change of data provider is also likely to result in significant changes to the assessments and composition of the total portfolio due to the lack of comparability of ESG ratings. Overall, insurers see the same dependency in ESG ratings and -data that is already familiar from credit ratings. Data providers exploit this dependency and dictate prices accordingly. Negative consequences from oligopolistic structures, similar to those in the credit rating market, must be avoided in the interest of diversity, market efficiency and appropriate pricing.

In this context, the EU legislative proposal for a European Single Access Point (ESAP) is highly appreciated and critical to reduce dependence on data providers and their market power. Without ESAP, the

various new EU sustainable finance legislations (e.g. Taxonomy Regulation, Sustainable Finance Disclosure Regulation, Corporate Sustainability Reporting Directive) and respective requirements for the industry will further increase unnecessary costs for accessing ESG data.

For rated companies, the current landscape of unregulated and significantly differing ESG ratings leads to key challenges such as (1) very resource intensive response processes to many, often not comparable, ratings in an effort to confirm companies' sustainability performance; (2) unachievability of "top marks" due to a lack of transparency on methodology and respective requirements; (3) significant fees for additional rating services such as further insights into rating requirements, i.e. the opportunity to reach "higher marks" often comes with significant costs for rated companies, resulting in an unlevel playing field across rated companies.

To what degree do you consider that the following shortcomings / problems exist in the ESG ratings market, on a scale of from 1 to 10 (1- very little, 10 – important)?

- Lack of transparency on the operations of the providers **6**
- Lack of transparency on the methodologies used by the providers **8**
- Lack of clear explanation of what individual ESG ratings measure **7**
- Lack of common definition of ESG ratings **8**
- Variety of terminologies used for the same products **6**
- Lack of comparability between the products offered **8**
- Lack of reliability of the ratings **6**
- Potential conflicts of interests **7**
- Lack of supervision and enforcement over the functioning of this market **5**
- Other **5**

If you responded 'other' to the previous question, please explain which ones:

Lack of transparency on the data inputs for providers' ESG ratings (9).

Coverage for illiquid assets is very poor and often based on estimates.

What do you think of the quality of the ratings offered on a scale from 1 (very poor) to 10 (very good)?

6

Please explain why:

Ratings quality overall keeps improving (universe of companies covered, methodology robustness, experience acquired on established models) but there are still transparency issues as well as timeliness/data updates issues. Moreover, ratings can only mirror the quality of company disclosure.

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

- Yes
- No
- No opinion

If you responded yes to the previous question, please specify the biases

- Biases based on the size of the company rated
- Biases based on the location of the company
- Other biases

If you responded 'other biases' to the previous question, please explain which ones

Both, biases based on the size of the company rated (related to reporting capacities) and biases based on the location of the company (see our comment on bias towards US governance systems/US based oligopoly).

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

- Yes
- No
- No opinion

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 (no problem) to 10 (significant problem)?

7

A low level of correlation forces to deep dive into underlying data, which can be especially for smaller insurers difficult. When investors are obliged to subscribe to several data providers/ratings (in order to make well informed decisions and fulfil (several) requirements/duties) and are also forced to deep dive into underlying data for every single assessment it gets very costly and time consuming. Also, the possibility of combining different providers gets impossible when the level of correlation is low.

How much do you consider each of the following to be an issue, on a scale from 1 (no issue) to 10 (very significant issue)

- There is a lack of transparency on the methodology and objectives of the respective ratings
- The providers do not communicate and disclose the relevant underlying information
- The providers use very different methodologies

- ESG ratings have different objectives (they assess different sustainability aspects) **4**
- Other issue(s)

If you responded 'other issue' in the previous question, please explain which one(s)

Company disclosure is inconsistent and not comparable **10**

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

Please explain your response to the previous question:

More independent information is a plus. Having a rich and diverse offering allows the possibility to subscribe or use one or many methodologies which may help to closely match with the convictions and strategy of a company.

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

7

ESG ratings became mainstream and influence how companies report. At the same time market concentration is high which might lead to conflicts of interest. We e.g. do see conflicts of interest between index/benchmark provider and rating business as well as between accuracy and cost pressure. Moreover, conflicts arise where agencies assess companies and offer advisory services at the same time to the company to improve the ESG score.

If you responded 'yes' to the previous question, where do you see the main risks? (multiple choice)

- Where providers both assess companies and offer paid advisory services
- Where providers charge companies to see their own reports
- In the absence of separation of sales and analytical teams
- With the ownership system of some providers, where the parent company may exert undue pressure or influence on the research and recommendations that a ratings provider offers
- In the lack of public disclosure of the management of potential conflicts of interest
- Other conflict(s) of interest

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

2

What barriers do you see for smaller providers?

High cost to acquire the extent and depth of information required for sufficient coverage of companies and countries. It is difficult to build reputation, and good small providers are bought by the large players (market has already consolidated extensively).

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 (does not allow) to 10 (fully allows)?

3

To what degree do you consider the fees charged for ESG ratings to be proportionate to the services provided, on a scale from 1 (not proportionate) to 10 (very proportionate)?

3

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

- Yes
- No
- No opinion

If you responded 'no' to the previous question, please specify what you consider should be the minimum information to be disclosed

Transparency on the pricing structure (e.g. a price list on the webpage).

III. EU intervention

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
- No opinion

Please explain why :

A certain level of EU regulation will be needed to address existing shortcomings in ESG ratings and data providers (such as fragmentation, lack of transparency and comparability, oligopolistic structures/market power and increasing costs for users).

From a user perspective, an EU initiative should in particular help minimize costs (cost increases due to regulation must be avoided) and improve the comparability and reliability of surveys and ratings (which are currently problematic due to differences in definitions, data sources, methods, and frequency of data collection).

However, a strong level of rating and data comparability can only be achieved on a global level. Therefore, EU regulatory initiatives should be closely aligned via global standard setters like IOSCO, who already published a set of recommendations applicable to ESG ratings and data product providers in November 2021, and take into account sustainability reporting initiatives at global level (e.g. the ISSB global baseline for sustainability reporting can play a key role to ensure that ESG ratings are at least to some extent based on globally comparable ESG information, which contributes to the ESG ratings' transparency, quality and reliability).

Moreover, it is of utmost importance that a potential EU initiative on ESG ratings takes into account (1) the role of existing EU sustainability regulations and indicators (e.g. PAI under SFDR and DNSH under Taxonomy Regulation); and (2) the possible effects of different approaches for EU companies compared to non-EU companies to avoid creating an unlevel-playing field.

A (global) intervention should in particular target more standardization of ESG ratings and increase transparency on ESG rating provider's methodologies and pricing models, which would bring several benefits: (1) It increases the comparability of ratings from different providers, which in turn increases their credibility and reduces uncertainty about "trustworthiness"; (2) It facilitates a broader competition in the ESG data provider market by reducing the market and pricing power of "ESG market leaders" (which in the absence of a regulatory standard are in fact the standard setters for the methodology based on a market

consensus view); (3) It increases transparency for clients regarding the methodology that is used.

If you responded yes to the previous question, what type of intervention would you consider necessary?

- Non-regulatory intervention (e.g. guidelines, code of conduct)
- Legislative intervention

If you responded yes to the previous question, what do you consider should be the prime focus of the intervention? (multiple choice)

- Improving transparency on the operations of the providers,
- Improving transparency on the methodology used by the providers,
- Improving the reliability and comparability of ratings,
- Clarifying what is meant by and captured by ESG ratings, to differentiate from other tools and services,
- Clarifying objectives of different types of ESG ratings,
- Improving transparency on the fees charged by the providers,
- Avoiding potential conflicts of interests,
- Providing some supervision on the operations of these providers,
- Other measures (please specify).

For each of the points you selected in the previous question, please explain what solutions and options you would consider appropriate

(Global) minimum disclosure/transparency requirements for ESG ratings and data product providers (on definitions, data sources, methodologies, processes, etc.) should be introduced (as a first step) since improvements in transparency would already mitigate – to a large extent – related challenges (comparability, significant costs for insights into rating requirements and resulting unlevel playing field, etc.). If ESG agencies are found to have continuous inappropriate pricing policies on an area-wide basis, price regulation should also be made possible.

A clear definition of key terminology as well as guidelines around ESG ratings frameworks would help set a common baseline around ESG ratings. Moreover, disclosure requirements for the data providers around their methodologies and processes would help increase transparency around their chosen approaches/methodologies and in turn increase the trustworthiness around the data.

In addition, comparability around the pricing structure would potentially counteract misconduct in the market (e.g. in the course of the newly established disclosure requirements for financial institutions with respect to sustainability, data providers have seized the opportunity and leveraged their existing research by mapping the existing data points

to the new regulatory requirements and are charging additional fees for the usage of these “repackaged” data sets).

An overarching supervisory body could be helpful in setting these standards as well as ensuring their enforcement.

Measures should also be taken to reduce conflicts of interest (cf. corresponding regulations for credit rating agencies (CRAs)).

It must be taken into account from the very beginning that any new requirements established will apply not only to the CRA itself, but also to its subsidiaries, in order to avoid circumvention situations such as those that have been observed in the market for credit ratings.

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
- No opinion

Please explain why:

Rating agencies should be regulated as they handle massive amounts of data from assessed companies, often confidential. Currently, there is no regulation on the level of assurance, monitoring and handling of data by ESG rating agencies.

In terms of supervision of ESG assessment-providers at EU level, ESMA is considered the suitable authority.

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
- No opinion

Please explain why

See above.

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

- Yes
- No
- No opinion

Please explain why:

From a user perspective (e. g. insurers), ESG data is already well integrated into investment processes and decisions. Therefore, providing high quality, reliable, auditable and transparent data should be at the core of ESG rating agencies duties and engagements. There are vast differences in approaches around data collection (publicly available data collection, company questionnaires, AI-based data collection) as well as methodologies, with often limited insights into the details resulting in a “black box” outcome.

From the perspective of rated companies, minimum information is needed (but often not available) to respond to questionnaires in an accurate way.

Disclosure requirements would contribute to greater transparency, enhance comparability and competition in the market and would thus be an effective tool to address the above mentioned challenges both from a user and rated company perspective.

Do you consider that the providers should be using standardised templates for disclosing information on their methodology?

- Yes
- No
- No opinion

Please explain:

Standardised templates for disclosing information on the methodology would strengthen transparency, comparability and ease due diligence (in particular in combination with the implementation of ESG rating standards).

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
- No opinion

If you responded yes to the previous question, please specify what metric you consider should be used to differentiate between providers:

- Total revenue
- Revenue from ESG ratings
- Number of employees
- Other metric(s)
- in the case of providers located outside the EU and not providing services to EU investors but rating EU companies/financial

instruments – percentage of EU companies/financial products rated

If you responded 'other metric(s)' please explain which one(s):

As metric could be used total revenue or revenue from ESG ratings.

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
- No opinion

If you responded yes to the previous question, please specify what metric you consider should be used to differentiate between providers:

- Percentage of EU companies/financial products rated
- Other metric(s)

PART B – INCORPORATION OF ESG FACTORS IN CREDIT RATINGS

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

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

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
- No opinion

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

- Yes
- No
- No opinion

Please explain

There are several factors to consider on this question. In general, the level of disclosure has improved sufficiently since the ESMA guidelines came into force, but some CRAs are still lagging behind.

Rating agencies include their ESG analysis and scoring separately and on different scales. Most transparent would be to see how ESG assessment and ratings integrate into the overall credit rating. For instance, some rating reports include a ratings scorecard where the credit rating scale is applied to the following factors: Scale, Business Profile, Profitability and Efficiency, Leverage and Coverage, Financial Policy. ESG factors could be added as additional factors on the same rating scale to more transparently illustrate the impact of ESG on the current and future credit rating. Similarly, other agencies indicate rating component

scores and their impact on the rating (e. g. “management and governance: weak (-2 notches)”, “financial policy: strong (no impact)”, etc.). This could also include ESG factors and illustrate their impact.

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

- 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
- No opinion

If you answered yes to the previous question, please explain the differences in the level of disclosure:

The level of detail is differing between CRAs, also it is not consistently reflected across reports in some cases.

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? (multiple choice)

- 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

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

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
- No opinion

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
- No opinion

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

- 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 specify

Regarding the possible regulatory intervention, what type of requirements do you find relevant? (multiple choice)

- 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.

If you responded other, please explain:

The requirement to further explain the relevance of ESG factors must be proportionate to, and not exceed, the disclosure requirements of other relevant factors. Furthermore, possible measures in this area

must ensure that the informative value of credit ratings with regard to default probabilities is not diminished.

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

- Provide further clarity on the impact of ESG factors on the credit-worthiness 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

What would be the consequences of the lack of the EU intervention? (multiple choice)

- 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

Berlin, June 3, 2022