

9 March 2022

SSMA response to the ESMA *Call for evidence on market characteristics for ESG Rating Providers*

Background

ESMA published a *Call for evidence on market characteristics for ESG Rating Providers in the EU*¹ on 3rd February 2022 (the “Call for Evidence”). The Call for Evidence follows on a letter from ESMA to the Commission in January 2021² informing about the risk for investors posed by the fact that ESG ratings are presently unregulated. The Commission intends to present a proposal with actions³ and ESMA has been requested to provide certain information. The Commission has noted that it will publish its own consultation before presenting a final proposal.

The topic of ESG ratings was discussed in the Swedish Securities Markets Association (“SSMA”) when it prepared and provided a response (the “Response”) to the Commission’s consultation on the Renewed Sustainable Finance Action Plan in July 2020⁴. The SSMA response below to questions that have been considered relevant in the Call for Evidence takes into consideration the Response and further discussions in the SSMA Sustainability Working Group.

B- ESG Rating Users

1. Background information

Question 1 - Name of respondent or organization

¹ [Call For Evidence on market characteristics for ESG Rating Providers in the EU \(europa.eu\)](#)

² [esma30-379-423 esma letter to ec on esg ratings.pdf \(europa.eu\)](#)

³ [FR09/2021 Environmental, Social and Governance \(ESG\) Ratings and Data Products Providers \(iosco.org\)](#)

⁴ [SSMA response to EC consultation on a Renewed Sustainable Finance Strategy – Svensk Värdepappersmarknad \(svenskvardepappersmarknad.se\)](#)

The Swedish Securities Markets Association (SSMA) is an association representing the interests of 23 banks, investment banks and investment firms active in securities markets in Sweden.

Question 2 - Nature of establishment in EU

Legal entity established in the EU (Sweden).

Question 3 - Respondent subject to any existing financial regulatory authorization, registration or supervisory regime

SSMA is not in itself subject to any regulatory authorization, registration or supervisory regime, but members of the SSMA are registered and supervised banks, investment banks and investment firms.

Question 4 - General description of business model and main area of economic activity

The SSMA has 23 banks, investment banks and investment firms active on securities markets in Sweden as members.

2. Use of ESG ratings

Question 1 - Currently contracting for ESG ratings

SSMA members currently contract for ESG ratings with several different ESG rating providers.

Question 2 - Currently contracting for other ESG data products

SSMA members currently contract for ESG data products with several different providers.

Question 6 - Please explain reasons for choosing more than one ESG rating provider

The SSMA notes that the market for ESG ratings is in practice dominated by a small number of (often American) providers. SSMA members are also often in contact with several ESG rating providers, as they use different data and methodologies, have different perspectives etc.

The possibility to contract with several ESG rating providers is considered valuable. It is important that different providers are allowed to co-exist so that we avoid streamlining views and positions. Against this background, we should refrain from imposing detailed regulation e.g. in relation to the choice of methodologies, even if some guidelines may be required.

Question 8 - Please outline and explain any shortcomings in the ESG rating or ESG data products you currently contract for

SSMA notes that the focus of providers is often on large companies in larger markets, and that SMEs in general and SMEs on smaller markets in particular do not get the same coverage by providers. It is against this background important that SMEs, especially SMEs on smaller markets, receive a better coverage by providers.

Another issue raised in discussions on ESG ratings of particular importance to the Nordics and likely also other EU countries compared to not least US companies is that the Nordics have extensive and well-developed public pension and healthcare systems, free schools including up to and including university level etc. paid for by the taxpayers, while at the same time having a high degree of labor union participation. Companies in the Nordics do however perceive that their contributions in this regard are not always sufficiently considered by ESG rating providers. It is however important that credit is given for the contribution of companies to these systems, regardless of whether they contribute via taxes paid or directly.

Yet another important issue is that companies and products analyzed by providers must be treated in an equal manner. At present it is difficult to determine if an equal treatment principle has been followed as insufficient information is often provided about the data that has been used, how it has been processed, what methodologies have been used, and how the provider has reached its conclusions.

SSMA has by way of example learnt of cases where providers have said that they have not had access to certain information about a company even though such information has been available on the website of the company. We have also heard of cases where reports have presented participating (paying) companies as “greener” than companies that did not participate in (or pay) for the report.

Against this background SSMA would support the introduction of disclosure requirements relating to which data reports etc. is based. A natural first step would be development of guidance and/or development of industry best practices or codes.

Question 9 - Please outline whether you are satisfied with the level of methodological transparency for the products you contract for, including transparency around data sourcing

A common theme when discussing ESG ratings is that the information and data on which the analysis is based is often not complete. This is not the fault of the providers but rather a consequence of the fact that we do not yet have a sufficient degree of harmonization and standardization when it comes to sustainability data, meaning that the data quality is generally poor. This said it is expected that the situation will improve over time as sustainability data and reporting rules are further developed.

Another issue is that it is at present difficult to compare ESG ratings provided by different providers as they use different data sets, methodologies etc. As noted above, it is important that providers are allowed to develop their own business models. However, the fact that it is presently difficult to understand e.g. which methodologies that are used by providers makes it difficult to determine quality. The SSMA would against this background support increased transparency in these parts through regulation.

It should in connection with this be noted that providers are aware of the need for increased transparency and are already doing some work in this field. Some providers seek to provide high-level descriptions of their work and methodologies used, but more could be done when it comes to describing the details.

It is in short important that providers can explain better than today “why it turned out the way it did” when publishing an ESG rating. SSMA considers that in this work parallels could be drawn to the existing rules on internal structures, processes etc. applicable to credit rating agencies, while at the same time recognizing that there are also many differences between credit ratings and ESG ratings.

Against this background, a natural first step would be development of guidance and/or development of industry best practices or codes.

4. General views on ESG ratings in EU Financial Markets

Question 1 - Please provide your views on the level of relevance of ESG ratings to EU financial markets and financial market participants. Do you consider this level will increase in the coming years?

While ESG ratings were previously to some extent considered to be a marketing instrument they now serve to allocate large flows of capital and have consequently become increasingly important to both companies subject to ESG ratings and entities using such ratings.

Against this background, the SSMA considers it important that the whole production chain including the collection, processing and analysis of information up to and including the publication of ESG ratings works.
