### ABOUT EASRA

EASRA stands for the European Association of Sustainability Rating Agencies. Established in Paris, France, in the Spring of 2023, the association aims to become the representative body of a relatively new breed of sustainable finance European service providers. The EASRA members stand for transparency, rigor, independence and the promotion of double materiality. They believe that their collective mission is critical to help channel private investment into the transition to a climate-neutral, climate-resilient, resource-efficient and fair European economy, as a complement to public money.
**www.easra.org**

# MANIFESTO

**The ESG practice was born and developed in Europe.** This is where the main providers of ESG ratings and data have developed. Consolidation of this market has been very active, with most of these European players being acquired one after the other by non European Providers[1].

The sovereignty dimension of ESG issues no longer needs to be proven: many differences in the assessment of risks and opportunities linked to the environment, the social field and corporate governance exist between the different continents[2]. It is essential that European jurisdictions be able to assert their own standards – as much aligned with one another as possible.

- **European**. Like market infrastructures (regulated and unregulated exchanges, clearing houses, central securities depositories) and credit rating agencies, or even proxy voting agencies, ESG rating providers are becoming essential components of vibrant financial markets.
  EASRA therefore calls on the European legislators, where relevant, to introduce binding provisions in future regulations to support suppliers ultimately controlled by European owners.
- **Double materiality**. EASRA is committed to **operationalise the concept of double materiality, a cornerstone of the overall European regulatory framework for sustainable finance.** Should a provider elect to not apply the double materiality principle, its production should be “earmarked” as “single materiality (sm)” or “financial materiality (fm)”. In addition, this provider would be expected to explain its choice to not deliver on double materiality.
- **Support SMEs.** EASRA is committed to detailed ESG coverage of SMEs, something that is currently largely neglected by the main ratings providers. The very important role of mid-sized companies in the European economy makes it necessary to include SMEs effectively in the just transition.

This paper, written in June 2023, presents EASRA's views on the regulation of ESG[3] rating providers in Europe:

1. Offering any assessment or value-judgement on a company or Sovereign's ESG characteristics or performance, whether generated by a human analyst or computer program, constitutes an 'ESG rating'.
2. EASRA wishes to see the ESG ratings market regulated with extreme proportionality. The ESG ratings market has already become oligopolistic, and greater competition from smaller providers is in the interests of all investors. The regulator should acknowledge that some new entrants are extremely small companies operating under great financial constraints. There should therefore be not only a lower level of regulatory cost and burden for small companies, but a level beneath this for micro companies (with less than EUR5m of revenues or 100 employees). Exemptions regimes are probably more efficient than the grant of enforcement delays[4].
3. The regulators must ensure conflicts of interest are managed and disclosed by ESG ratings providers. This is likely to require the separation of ESG advisory/consultancy businesses from businesses that publish ESG ratings, and a clearly-visible statement (accompanying any rating) of whether the ESG ratings provider takes or seeks to take revenues of any kind from the company being rated. The regulator must demand that every ESG ratings provider demonstrates transparency in both its rating methodology (including its approach to the materiality of different ESG metrics and how any scores are assigned at the metric level) and also in the provenance of the underlying data that is being assessed (including a clear indication of whether the underlying data being assessed is actual disclosed data or estimated data).
4. ESG ratings providers must make available to the regulator and all clients a clear statement of whether they consider double materiality when assessing a company (this is defined as a consideration of the company's material impacts on the sustainability of the wider world, alongside a consideration of the potential impact of material ESG issues on the company's financial health). If double materiality is not considered, the statement must contain a clear explanation of why the ESG ratings provider does not regard it as a strategic priority.
5. The highest possible degree of convergence between regulations across European jurisdictions is highly desirable.
   Drawing on the lessons of past regulatory experiences, **European policymakers should take the necessary steps to ensure that, in the long term, it has genuine European players in this area, which contributes to European sovereignty in the economic and financial fields.**
6. Last but not least, we understand that ESG Data providers would not be regulated as quickly as ESG rating providers, however blurred these two services are at present. Ratings rely on data. The latter is the raw material of the former. This implies that ESG Data should be made available to ESG rating providers at fair, reasonable and non-discriminatory conditions (FRAND). EASRA calls on regulators to monitor the ESG Data provision business closely and promptly police this space if necessary.

## FOOTNOTES

[1] See for example Andreas Dimmelmeier, 2022.

[2] https://www.brookings.edu/blog/future-development/2021/09/28/the-risks-of-us-eu-divergence-on-corporate-sustainability-disclosure/

[3] The most precise definition can be found on page #10 of the IOSCO 2021 report (see references): «The term «ESG ratings» can refer to the broad spectrum of rating products in sustainable finance and include ESG scoring and ESG rankings (ESG rankings are included here on the basis that the underlying analytical process can be understood as a scoring process for multiple entities or issuers that results in a ranking of entities or issuers in a given sector). ESG ratings, rankings and scorings serve the same objective, namely the assessment of an entity, an instrument or an issuer exposure to ESG risks and/or opportunities. However, they differ in the resources and methodologies used. ESG scores usually result from quantitative analysis whereas ESG ratings are produced using both quantitative models and qualitative analysis and are accompanied by analyst reports to explain the ratings. On that basis, ratings may therefore incorporate an element of analytical judgement or opinion. Ratings providers select key issues for each ESG component and assess the exposure to these sustainability risks and the way in which they are managed. ESG ratings, scorings, and rankings are usually not defined in absolute terms (although some are) but are generally assessments relative to a peer group."

[4] The regulators could capitalize on the experience earned with the CRAR in this regard.

## REFERENCES


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