EASRA

European Association of Sustainable Rating Agencies

Press Release *22 July, 2024*

EASRA's position on recent transformations in the ESG ratings market

Recent developments within the ESG ratings and data market indicate a need to revisit plans for regulation and to support fair competition and a diversity of providers.

The ESG industry under pressure

The market for ESG ratings and data is going through a transformation due to a slowdown in demand. The momentum generated by European regulations on sustainable finance - notably the SFDR – is maturing after a period of strong growth over the past 5-6 years. In a constrained environment, investors are increasingly cutting costs, which translates into reduced spending on ESG data, further accelerated by the consolidation in the asset management industry.

These effects are working in favour of the major global providers of ESG ratings and data. Smaller and specialised players are increasingly under pressure, when they offer only a partial product portfolio compared to larger competitors (ESG ratings, thematic data, controversies, data access platforms, regulatory reporting solutions, data aggregation etc.).

Regulation fostering market concentration

Acknowledging the importance of ESG ratings and data for sustainable finance markets, the European Parliament recently passed a regulatory text[1] imposing strict rules on ESG rating agencies, particularly in terms of transparency and management of conflicts of interest.

A similar regulatory undertaking is on its way in the UK.[2] EASRA welcomes these initiatives to build a more level playing field for the overall ESG industry, securing fair competition.

However, recent announcements[3] seem to indicate that future regulations are encouraging market concentration. EASRA calls upon regulators to enact policies that will favour more competition, rather than the increased oligopolisation - which is unhealthy for European capital markets. In addition, investors wishing to apply the double materiality approach reflected by the CSRD are faced with a very limited choice of solutions as most of the global ESG providers focus instead on short-term financial materiality.

Call for the support of a European ESG ratings and data market

EASRA calls on European financial actors to consider especially the European ESG rating industry by including smaller and specialized suppliers in requests for proposals and market consultations. European regulators - within and outside the European Union - should also take seriously the increased market concentration similar to the credit rating industry. It is not too late to amend and streamline regulatory texts to provide greater support for a diverse market and prevent any loopholes:

- by stronger proportionality rules for both small and medium-sized players,
- by including pure ESG data providers who do not provide scores but who should apply the same rules of transparency and management of conflicts of interest,
- by fully including index providers that bear the same risk of conflict of interest if they also propose ESG data and score.

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FOOTNOTES

1 https://www.europarl.europa.eu/legislative-train/theme-an-economy-that-works-for-people/file-esg-rating
2 https://www.gov.uk/government/consultations/future-regulatory-regime-for-environmental-social-and-governance-esg-ratings-providers
3 https://ir.moodys.com/press-releases/news-details/2024/Moodys-and-MSCI-Announce-a-Strategic-Partnership-to-Enhance-Transparency-and-Deliver-Data-Driven-Risk-Solutions/default.aspx