

### **FMSB publishes Spotlight Review on ESG ratings**

- Market practitioners make tangible proposals to improve the transparency of ESG ratings and enhance user understanding
- Comparability across providers would improve trust in ratings and thereby support informed allocation of capital
- Greater transparency is required

20 July 2022 - The Financial Markets Standards Board (“FMSB”) today publishes a Spotlight Review which examines ESG ratings methodologies and data collection processes.

The rapidly growing market for ESG-related products and the desire of financial institutions to manage their exposure to ESG-related risks has heightened the importance of, and demand for, ESG ratings. ESG ratings assist the development of a healthy market ecosystem by providing an additional and external source of due diligence and expertise, however, their prominence also means that ESG ratings have real impacts on issuers and investors.

This Spotlight Review seeks to facilitate greater transparency of ESG ratings methodologies and data collection processes to enhance understanding of ESG ratings and facilitate comparability across ratings providers in wholesale financial markets. The Review builds on an existing body of work produced by regulators, standard-setters and industry participants and focuses on issues identified in the following areas:

- Output/Objectives of ESG ratings
- Data inputs
- Methodology
- Post-assessment rating process

The Review highlights:

- the varied use cases of ESG ratings
- issues associated with limited transparency and market understanding of ratings
- the different objectives of rating products
- the diversity between products with similar objectives
- the impact of controversies on an issuer’s ESG rating can be material but little understood
- efforts to increase issuer ESG disclosure are likely to improve the quality of ESG ratings; and
- greater transparency helps to drive market solutions independent of regulation

Myles McGuinness, CEO of FMSB, said: “ESG ratings are an important tool for investors when making investment decisions related to managing exposure to ESG-related risks. We hope that this Spotlight Review can help to support increased transparency around collection processes and methodologies as a means of facilitating comparability of ESG ratings.”

Caroline Haas, Chair of the FMSB ESG Ratings Working Group and Head of Climate and ESG Capital Markets at NatWest Markets, said: “Improved disclosure and transparency are key

for market participants to understand the significance of different ratings in a diverse landscape. This Review seeks to increase the transparency of ESG ratings methodologies and data collection processes to promote user understanding, aid comparability across providers, improve trust in ratings and thereby support informed allocation of capital.”

**ENDS**

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**Notes to Editors**

A not-for-profit, privately-owned company, Financial Markets Standards Board (FMSB) is the leading market-led, global standards body for fair and effective wholesale financial markets.

Created following the Fair and Effective Markets Review (FEMR) in 2015, FMSB brings together its members - practitioners - from buy-side, sell-side, corporate issuer and infrastructure provider organisations to develop Standards, Statements of Good Practice and Spotlight Reviews.

Its mission is to improve the transparency, fairness and effectiveness of global wholesale financial markets.