

## Cabinet News and Views

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### ESMA Overview of the Market for ESG Ratings Providers in the EU and FCA Feedback on ESG Integration in UK Capital Markets



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Here is a summary of ESG announcements from the European Union’s European Securities and Markets Authority (“ESMA”) and the Financial Conduct Authority (“FCA”).

#### European Union

On June 27, the European Securities and Markets Authority (“ESMA”) [published a letter](#) it sent to the European Commission (“EC”) on June 24 on the outcome of ESMA’s call for evidence on the market characteristics of environmental, social and governance (“ESG”) ratings and data providers operating within the European Union (“EU”). ESMA launched its call for evidence in February 2022, and it received 154 responses.

ESMA concludes that the feedback indicates the market for ESG ratings and data providers is an “immature but growing market” that has “seen the emergence of a small number of large non-EU headquartered providers” and that the market resembles that which currently exists for credit ratings. The letter also states that there are currently 59 active ESG ratings providers operating in the EU.

ESMA’s findings include the following:

- The current structure of providers in the market is divided between a small number of very large non-EU entities on the one hand and a large number of much smaller EU entities on the other. As a generalization, the EU entities providing ESG ratings can be characterized as small or medium-sized enterprises.
- The majority of users of ESG ratings typically source these products from multiple providers simultaneously. As mentioned above, there are a small number of large ESG ratings providers, and the majority of ESG ratings users

utilize their services. This suggests a not insignificant degree of concentration in the market.

- Respondents to the call for evidence identified a lack of coverage on industry, type of entity and granularity of data as having a “fundamental impact” of the usability and relevance of ESG ratings.
- Furthermore, respondents highlighted concerns with the current system of assessment of covered entities and their interaction with ESG ratings providers. Shortcomings highlighted in these interactions included the level of transparency as to the basis for the rating, the timing of feedback or the correction of errors.

ESMA has stated that it will continue to support the EC in its assessment of the need for introducing “regulatory safeguards for ESG ratings.” It seems likely, based on the direction of travel, that providers of ESG ratings used in the EU will, in the near future, be brought within the scope of the EU financial regulation.

### **United Kingdom**

On June 29, the Financial Conduct Authority (“FCA”) [announced](#) the publication of its [consultation feedback](#) on ESG integration in UK capital markets. Furthermore, the FCA set out its policy response and “potential next steps.” On the same day, the FCA published its [Primary Market Bulletin](#) newsletter, which further elaborated on the FCA’s response to feedback and gave some clarity on the regulator’s expectations of issuers of ESG-labelled debt instruments.

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