International Association of Oil & Gas Producers

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IOGP Europe response to ESMA Consultation on the draft technical standards under the ESG Ratings Regulation

Executive Summary

IOGP Europe welcomes the opportunity to contribute to ESMA's consultation on the draft Regulatory Technical Standards (RTS) under the ESG Ratings Regulation.

We strongly support ESMA's objective to enhance transparency, comparability, and accountability in ESG rating practices. While the draft RTS is a step in the right direction, several areas require further strengthening to ensure that ESG ratings are fit for purpose and aligned with broader EU sustainable finance goals.

Key recommendations

1) **Address divergence and opacity**
   - Rating providers should transparently disclose key normative judgments embedded in their methodologies, especially where these relate to sectoral or policy expectations (e.g. energy transition timelines).
2) **Ensure procedural transparency and issuer engagement**
   - ESMA should require rating providers to disclose whether and how they engage with rated companies.
   - Upon issuer request, providers should be required to engage with minimum procedural standards to ensure fair and meaningful dialogue.
3) **Standardize controversy assessment process**
   - Baseline criteria for the inclusion, review, and removal of controversies should be defined.
   - Clear thresholds, timelines and transparency around the impact of controversies on ratings are necessary. Otherwise battling the risk of badly impacting listed companies.
4) **Promote alignment with reported disclosures and prioritize use of reported data**
   - The RTS should promote alignment with globally recognized standards and frameworks, including the Corporate Sustainability Reporting Directive (CSRD), where applicable, and the International Sustainability Standards Board (ISSB), where relevant.
   - Providers should be required to prioritize the use of audited, publicly reported data over proprietary surveys and to facilitate its efficient use across assessments. When using proprietary surveys, it should be clearly indicated.
5) **Recognize forward-looking strategies**
   - ESG methodologies should distinguish between static performance (e.g. current emissions) and forward-looking strategies (e.g. capex commitments).
   - Sectors engaged in long-term decarbonization efforts must be assessed on both present and future metrics.
6) **Clarify treatment of non-public data**
   - ESMA should assess whether non-public input should be allowed or subject to strict restrictions.
   - Where permitted, non-public inputs should be transparently disclosed, and their influence clearly indicated.

Toward transparent and reliable ESG Ratings: IOGP Europe's response to ESMA's RTS consultation

ESG investing has seen a rapid institutional uptake, with ESG rated funds attracting significant inflows despite methodological inconsistency across ratings. This paradox - high reliance coupled with high variability and opacity - underscores the urgency of strengthening oversight of ESG rating activities, as noted in the OECD (2024) and IOSCO (2023) assessments of ESG data reliability and investor trust.

As an industry that is directly impacted by ESG ratings and actively engaged energy transition activities in sustainable finance markets, we support the overarching aim of the regulation to increase transparency, consistency and reliability in ESG rating practices. These objectives are essential to improving investor confidence and ensuring that ESG ratings meaningfully reflect sustainability performance realities.

The problem: divergence, opacity and inconsistency

However, several challenges must be addressed to ensure the RTS delivers a balanced and effective outcome. A key concern is the significant divergence in ESG ratings assigned by different providers. In a study by Berg et al., which analyzed ESG ratings from six major agencies, the authors found substantial discrepancies, with correlations between ratings ranging from as high as 0.71 and low as 0.38. Such divergence stems from notable inconsistencies in the scope of ESG factors assessed, methodological differences in how factors are measured, and the varying weightings applied to environmental, social, and governance dimensions.

But these inconsistencies are also shaped by underlying normative assumptions. Research by the Centre for European Policy Studies (CEPS) and the Harvard Law School Forum on Corporate Governance shows that divergence is also driven by opacity around normative assumptions embedded within methodologies, particularly concerning transition pathways and sectoral priorities.

These inconsistencies undermine comparability across ratings and reduce confidence in the overall reliability of ESG assessments. A lack of methodological transparency further limits the ability of rated entities to understand or challenge or support how scores are calculated, or which data points influenced the outcome.

To support this, the RTS should promote the effective reuse of existing globally recognized reporting standards and frameworks to help avoid duplicative reporting and unnecessary burden on companies depending on which jurisdiction they operate in, and to be able to compare apples with apples across different jurisdictions.

While transparency is essential, a minimum level of methodological standardization is also required to improve baseline consistency across providers and mitigate the most problematic divergencies.

Consequences for Industry and the Market

For companies operating across complex international value chains, the current gaps in rating practices pose operational and reputational risks. They conflate the exposure of high profile ESG controversies with non-compliance, without proper consideration of a company's risk management systems, mitigation measures, or due diligence efforts.

These flaws are harmful in sectors like energy and chemicals inter alia, where investment decisions and stakeholder perception may be shaped by ESG ratings. Studies published in "ScienceDirect" and by the EU's Joint Research Centre (JRC) highlight how ESG metrics may undervalue complex transition efforts by failing to distinguish between:

- static performance (e.g., current emissions)
- forward-looking metrics (e.g., decarbonization roadmaps or capital expenditures plans (CapEx)).

Adding to these concerns, companies face an increasing administrative burden associated with ESG ratings. They are frequently required to respond to questionnaires from multiple rating agencies, often involving:

- redundant or inconsistent requests for information
- Inefficient processes

- Reporting fatigue
- Limited-value engagement

The absence of data review or feedback mechanisms, combined with confusing presentation of inputs, can make it difficult for issuers to verify or correct data.

This contributes to inconsistencies across ratings and undermines clarity on how performance is measured or weighted, leaving companies unsure how to improve or respond to stakeholder concerns. Greater alignment around calculations and methodologies for data points that are common across multiple ESG raters would be helpful to issuers.

Gaps in process and engagement

The lack of structured engagement further weakens the ratings process. Some providers like RepRisk rely primarily on publicly available data to identify and assess material risks, citing concerns over the reliability of self-reported information. While this may improve perceived independence, it also introduces risks of omission or misinterpretation, particularly where providers operate without structured engagement protocols.

ESMA stakeholder consultations and academic publications have flagged this concern, calling for minimum standards of issuer interaction and data verification. The absence of engagement increases the risk of factual inaccuracies and prevents issuers from clarifying complex sustainability issues, particularly when companies are unable to clarify or contextualize the information being used.

Companies also face difficulties in correcting controversies. There is often:

- no clear threshold or standard for inclusion
- limited opportunity to challenge or update incorrect assessments
- no clear procedure for removing outdated or disproved items
- and even after providing credible evidence to refute inaccurate claims, it remains challenging to have these items amended or removed in a timely manner

To provide an example, we observed that data submitted through a structured questionnaire was later reassessed without explanation, resulting in discrepancies that could not be reconciled. The lack of formal timelines, structured engagement opportunities and due process for such reviews undermines trust and introduces flaws in the rating process.

Another challenge is that controversies often remain part of an issuer's rating for a fixed period, even after they have been disproved or after a significant amount of time has passed.

Separately, some rating providers also permit the submission of non-public data, which can lead to asymmetries between companies that do and do not provide such information. This raise concerns around fairness and consistency in the rating process.

We also note a growing trend whereby companies and investors are turning to their own internal ESG assessment methodologies, citing limitations and inconsistencies across commercial ESG ratings. This shift reflects broader concerns about the reliability of third-party ESG scores and highlights the need for the regulatory framework to improve confidence in the ESG rating ecosystem.

Recommendations for a stronger RTS

We believe the draft RTS proposal represents a positive step toward resolving many of these issues, particularly through its emphasis on increased transparency around methodologies, key assumptions and data sources.

While this direction is welcome, we encourage ESMA to go further in several key areas, to ensure that ESG ratings are transparent, reliable and aligned with broader EU sustainability objectives. We propose the following:

- While methodological diversity is welcome, **we call for ESMA to ensure that ESG rating providers transparently disclose normative judgements** (e.g. energy transition timelines, policy expectations) that could influence sectoral assessments.

- **We propose that the draft RTS should explicitly require rating providers to disclose whether and how they engage with rated companies and to require engagement following a request from issuers.**
  Transparency about issuer engagement and responsiveness is important to ensure procedural fairness and to give companies a meaningful opportunity to clarify or correct material findings.
- **We recommend that the RTS should establish baseline requirements for how providers assess, verify and reassess ESG controversies.**
  These should include clear thresholds, response timelines, and disclosure of the controversy's material impact on ratings.
- **We suggest that the regulation looks at interoperability to promote closer alignment with established frameworks.**
  This will enhance consistency and comparability of ESG assessments while minimizing duplicative requests. In the EU context, ESG rating providers should prioritize the use of mandatory, audited disclosures under the CSRD, where relevant. However, considering the ongoing revision of the European Sustainability Reporting Standards (ESRS) and the Commission's stated objective of improving interoperability with the ISSB baseline, we caution against prescribing rigid reliance on CSRD specific inputs at this stage.
  Rating providers should instead be guided to draw on high quality, publicly available data from established frameworks, including ISSB or equivalent regimes, and to facilitate its efficient reuse. Where such data is already reported, rating providers should be required to prioritize its use over proprietary surveys. This would strengthen the EU supervisory framework while supporting broader global coherence and reducing unnecessary reporting burdens.
- **We recommend that ESG rating methodologies distinguish between static performance indicators and forward-looking strategies.**
  For industries engaged in long term decarbonization efforts, ratings that focus solely on present emissions or policy disclosures may fail to capture meaningful progress or investment in future outcomes.
- **We urge ESMA to assess whether the use of non-public inputs should be permitted or instead be subject to strict conditions.**
  Where permitted, such non-public inputs should be transparently disclosed, including their relevance and weighting in the final rating.

IOGP Europe supports the overarching objectives of the ESG Ratings Regulation and supports the direction of the draft RTS proposed by ESMA. Enhancing transparency, consistency and accountability across ESG ratings is essential to ensure fair and meaningful assessments of sustainability performance.

Ratings must serve their intended purpose of contributing to the smooth functioning of the internal market while achieving a high level of consumer and investor protection and preventing greenwashing and misleading information.

By fostering alignment with existing regulatory frameworks and encouraging proportionate, reliable and outcome-oriented methodologies, these standards have the potential to significantly improve the credibility of ESG ratings and therefore EU's sustainability objectives.

We remain committed to constructive engagement with ESMA and other stakeholders to ensure that the final standards are implementable in practice and support the long-term goals of the EU's sustainable finance agenda.