MSCI

16 January 2023

European Supervisory Authorities
By electronic submission

MSCI INC. COMMENTS ON ESAs CALL FOR EVIDENCE ON GREENWASHING

MSCI Inc. (“MSCI”) wishes to thank the European Supervisory Authorities (ESAs) for the opportunity to provide feedback on the Call for Evidence on Greenwashing (“CfE”).[1] MSCI recognises the value of establishing a framework through which to assess greenwashing.[2]

One of the primary drivers of uncertainty around sustainability-related statements arises from differing expectations from market participants as to what should qualify as “sustainable”. For example, one market participant may expect that no fossil fuel companies are found in a portfolio labelled as sustainable whereas others may expect categories of fossil fuel companies to be included in a sustainable portfolio. Group 1 may assert that any claim to sustainability may be misleading and evidence of “greenwashing” whereas Group 2 may have a very different view. The concept of “sustainability” (and other related terms) lies on a spectrum and without an unambiguous definition for all products and services as to what is sustainable and what is not, there will continue to be assertions of misleading claims.

Recognising that this may be difficult to achieve as market perceptions continue to change, the most effective and realistic mitigant to “greenwashing” lies in effective transparency and disclosure. We would support the final paper from the ESAs to focus less on the roles of the different participants in the market, which is merely a reflection of the market ecosystem, and more on the effectiveness of corporate disclosure, the development of action plans to clarify terminology in policy and regulatory frameworks and to set out clear expectations regarding transparency related to sustainability claims made by product owners and service providers.

The need for transparency of methodologies for benchmark administrators and ESG rating providers

The CfE positions both benchmark administrators and ESG rating providers as a potential “trigger” and/or “spreader” of greenwashing practices. As previously noted, transparency by product owners and service providers plays a key role in mitigating risks associated with

1 MSCI Inc. comprises subsidiaries including MSCI ESG Research (UK) Limited (United Kingdom), MSCI ESG Research LLC (United States), and MSCI Limited (United Kingdom). MSCI indexes are products of MSCI Inc., and MSCI Limited is the benchmark administrator. Products and services in the ESG and Climate segment are provided by MSCI ESG Research (UK) Limited and MSCI ESG Research LLC.

2 The CfE indicates that the term “greenwashing” is used broadly to include sustainability-related claims relating to all aspects of the ESG spectrum (i.e., environmental, social and governance dimensions) and is intended to be consistent with the European Commission’s request for input where the term “greenwashing” is used as referring to sustainability-related claims on environmental, social and/or governance aspects. Paragraph 5 of CfE.

greenwashing, and benchmark administrators and ESG rating providers both play specific and distinct roles in this transparency framework.

Benchmark administrators

Benchmark administrators develop and administer indexes based on rules-based methodologies, and publish and license that information to market participants. In simple terms, an index is a group of securities, commodities, or other assets ("Index Constituents") that are selected and weighted based on a specific methodology. An index is not a recommendation to buy, sell or hold Index Constituents, nor an assessment of the value or potential return of those. MSCI ESG Indexes are designed to represent the performance of the most common ESG investment approaches by including, re-weighting and/or excluding companies based on transparent ESG criteria. MSCI Limited makes its index methodologies[3] publicly available on its website. These index methodologies include a rules-based framework for the administration of the index, including the administration of the relevant ESG criteria.[4] This allows users of the index to assess whether the index is the appropriate tool to use for their products and services.

ESG rating providers

MSCI's ESG ratings are designed to measure a company's resilience to financially material environmental, societal and governance risks. ESG rating providers issue sector-based opinions on the medium to long-term ESG risks of a company based on publicly available information disclosed by corporates and other third-parties. ESG ratings build on pre-determined criteria that are based on scientific, fact-based evidence and in-depth research. MSCI ESG Research also engages in regular consultations with clients to inform the need to adjust the underlying methodologies, if any.

While the ESG Rating model and analysis process encompasses in-depth analysis of industry-specific data and Key Issues,[5] the MSCI ESG ratings methodology is also designed to accommodate large variations in norms of disclosure, including low to almost no ESG disclosure among companies that are smaller in market capitalisation, operate in less environmentally intensive industries, and/or in regions newly aware of ESG Key Issues.[6] While corporate disclosure is an important input into our model, we also gather alternative data from hundreds of media, academic, NGOs, regulatory and government sources to supplement those disclosures and build an independent assessment.

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3 Administered under the UK Benchmark Regulation (BMR); *see* Index Regulation - MSCI.

4 *See* MSCI Index Methodology; *see also* Index Regulation - MSCI.

5 The MSCI ESG ratings model identifies the ESG risks ("Key Issues") that are most material to an industry or sector. MSCI assesses data points across 35 ESG Key Issues that focus on the intersection between a company's core business and the industry-specific issues that may create significant risks and opportunities for the company. The Key Issues are weighted according to impact and time horizon of the risk or opportunity. *See* MSCI ESG Ratings Methodology (November 2022).

6 *See* MSCI ESG Ratings Methodology (November 2022).

For its part, MSCI ESG Research also makes its ESG rating methodologies and information regarding its ratings process publicly available on www.msci.com.[7] This information is made available to support users of ESG ratings, including investors and rated issuers, with information and insight into the meaning of MSCI ESG ratings and the underlying framework for the rating assessment.

In addition to ESG ratings, MSCI ESG Research offers additional tools and research to help institutional investors understand how ESG and climate considerations can impact the long-term risk and return of their portfolio and individual security-level investments. For example, MSCI ESG Research makes publicly available its ESG Industry Materiality Map[8] which is a representation of the current Key ESG Issues and their contribution to companies' ESG ratings. MSCI ESG Research also publishes research[9] on a wide range of topics that provide additional insight into the impact of ESG and climate considerations on specific sectors, industries, and the broader sustainable finance investment environment.

In conclusion, MSCI continues to support increased disclosure by corporates, greater certainty around key regulatory terms and transparency by product and service providers relating to their sustainability-linked products and services. We would welcome a discussion with the ESAs.

Yours faithfully,

s/
Ryan Mensing
Executive Director
Government and Regulatory Affairs

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7 *See* MSCI ESG and Climate Methodologies.

8 *See* ESG Industry Materiality Map.

9 *See* MSCI Research and Insights.