Do you consider that the current trends in the market are sufficient to ensure that CRAs incorporate relevant ESG factors in credit ratings?

• Yes

Credit rating agencies have always considered ESG factors, including climate-related risks, when issuing a credit rating, provided that these risks were identifiable, relevant, and material for the credit risk profile of the relevant rated entity. However, it is important to not overstate the actual significance or impact of E, S, or G, including climate-related risks, in credit rating analysis. As referenced above, of the 17 ESG factors identified in the DBRS Morningstar ESG Criteria, 5 relate to "E" and 1 of those relates to climate-related risks.

To assess the *actual* impact of E or climate-related risks on DBRS Morningstar credit ratings, DBRS Morningstar canvassed the press releases DBRS Morningstar issued between 1 February 2021 and 20 April 2022. In 8,367 of those rating actions (~14%), DBRS Morningstar identified one or more ESG factors as relevant and only in 236 instances (~0.4%), one or more ESG factors had a significant impact on the associated credit rating(s). Only 2 of these (~0.003%) rating actions were impacted by a climate-related risks factor. DBRS Morningstar believes the foregoing further evidence that climate-related risks are not among the most impactful drivers in credit rating analysis.

It is worth reiterating the related findings of the Network for Greening the Financial System (the "NGFS") report titled "Credit Ratings and Climate Change—Challenges for Central Bank Operations" to highlight areas where incremental regulatory intervention is expected to be beneficial. Credit rating agencies do face challenges in incorporating ESG factors, and in particular climate-related risks, into credit risk analysis in a more systematic manner, in part, due to data quality and availability issues. More specifically, these include scarcity of consistent, high quality, granular and comparable climate-related data and the fact that market standards and methodologies are currently subject to many changes. In this context, DBRS Morningstar acknowledges the number of related proposals by regulators to improve access to standardized climate-related information and disclosures.

DBRS Morningstar would also like to highlight the additional challenge related to time horizons as credit ratings typically focus on time horizons shorter than those that are considered relevant for the implications of climate change.

DBRS Morningstar understands that addressing climate change is an urgent and global priority. Comprehensive and impactful policy and regulatory initiatives could play a significant role in achieving the ultimate objective. However, adoption of new regulatory requirements to compel credit rating agencies to incorporate climate-related risks as the *main* environmental factor in determining and maintaining credit ratings would raise valid concerns related to appearance of political influence on the development of credit rating agency methodologies – unless the credit rating methodology development process itself confirms such a calibration independently. In addition, considering the empirical data demonstrating the significance or relevance of climate-related risks in credit analysis, an elevated incorporation of climate-related risks as an additional consideration into credit rating methodologies will likely create market confusion related to the meaning of credit ratings.

Requiring credit rating agencies to provide additional mandatory disclosures on climate-related risks, regardless of the significance of such risks in credit analysis, could exacerbate confusion among users of credit ratings with respect to the actual key drivers behind any credit rating. Accordingly, DBRS Morningstar respectfully recommends a focused debate and cost-benefit analysis of further regulatory intervention in the context of credit rating agency regulation focused on climate-related risks.

DBRS Morningstar believes that separate Climate Risk Ratings are potentially a better solution to communicate specifically on climate-related transition and physical impact risk. Such Climate Risk Ratings would measure the compliance of issuers with statutory, regulatory or global targets by expressing an opinion on the likelihood of meeting corresponding thresholds. The applicable time horizon would be longer-term and, thus, more reflective of the inherent nature of climate risk. Investors and regulators could use such Climate Risk Ratings similar but separately to credit ratings by assisting in investment decisions and capital charge determinations.