



HIGH MEADOWS
INSTITUTE

Sustainability in Capital Markets

**Financing the transition to a sustainable
low-carbon economy**

Credit Rating Agencies Sector Profile



Introduction

This sector snapshot is part of the High Meadows Institute report, Sustainability in Capital Markets. It is designed to provide a high-level overview of how key sectors in the financial system are supporting the transition to a sustainable low-carbon economy (SLCE). The sector evaluation is based on a literature review of studies on each sector's role in the SLCE transition, as well as a more detailed analysis of how 10 of the largest institutions in the sector are supporting the transition. Further details on the purpose of the report, the sectors being assessed, and the methodology for the assessment can be found in the Methodology publication [here](#).

Sample size: S&P Global Ratings (United States), Moody's Investors Service (United States), Fitch Ratings (United States), DBRS Morningstar (United States), Kroll Bond Rating Agency (KBRA) (United States), Scope Ratings (Germany), Japan Credit Rating Agency (JCR) (Japan), China Chengxin Credit Rating (China), CARE Ratings (India), ICRA Limited (India).¹

Combined entities rated: ~Over 1 million globally (estimated)

Credit rating agencies (CRAs) have long played a central role in shaping how capital flows and how risk is priced across the financial system. In recent years, growing pressure to account for climate risk has prompted agencies to expand their sustainability offerings. However, much of this activity has fallen under the broader ESG umbrella, making it difficult to separate climate-specific efforts from general sustainability disclosures.²

A growing number of CRAs are developing tools to account for climate-related risks, though these efforts vary in scope and purpose. According to 2024 Institute for Energy Economics and Financial Analysis (IEEFA) report,¹ these tools reflect a shift in how climate risk is viewed—fossil fuel exposure, once considered credit-positive, is increasingly seen as credit-negative. The report highlights how the three major agencies—Moody's, Fitch, and S&P—have introduced new approaches such as sector-level net-zero alignment assessments, climate valuation models, and energy transition frameworks with explicit warnings to petrochemical firms.

Despite this progress, integration remains fragmented. ESG factors—including climate-related factors—are

¹ The sample includes 10 globally recognized credit rating agencies selected for their regulatory relevance, market influence, and regional representation. This includes the "Big Three" (S&P, Moody's, Fitch), leading regional players in North America, Europe, and Asia (e.g., DBRS Morningstar, Scope Ratings, JCR), and top domestic agencies from major emerging markets (e.g., China Chengxin, CARE, ICRA).

² Most credit rating agencies do not clearly distinguish between their climate-related efforts and ESG-related efforts, so much of this sector profile will focus on ESG-related efforts, as it's generally understood climate risks are embedded in ESG tools and disclosures.



often assessed separately from core credit ratings, and most agencies lack third-party verification or standardized methodologies. The IEEFA report also points to broader sector-wide shifts: climate is now treated as a standalone risk category due to regulatory, legal, economic, financial, political, and social concerns. Community, climate, and investor voices are increasingly influencing CRA practices, pressuring agencies to adopt more rigorous, forward-looking approaches. Major CRAs have effectively reversed their stance on fossil fuels over the past two decades: coal is now considered unequivocally credit-negative, and oil and gas face growing financial pressure. The market is also beginning to financially reward low-carbon investments while penalizing fossil-fuel-linked assets—further reinforcing CRA caution. However, the report emphasizes that these changes are concentrated among a few leading firms. Many agencies continue to offer limited transparency around methodologies and rarely integrate climate risk into actual credit scores.

Still, these developments remain the exception rather than the norm. Climate risk is increasingly acknowledged but is not yet consistently or systematically embedded into financial risk modelling. For example, ICRA and CARE Ratings

offer standalone ESG ratings or limited public disclosure, but these remain unregulated and separate from credit evaluations. Some agencies have also clarified that ESG factors do not currently affect credit ratings unless deemed material. In 2025, DBRS Morningstar stated that while it evaluates 17 ESG factors, these are not deemed material and do not impact credit ratings—an approach intended to boost transparency while preserving traditional rating criteria.ⁱⁱ Similarly, KBRA offers ESG Management Quality Assessments through a dedicated portal, but ESG insights are applied only when materially relevant to creditworthiness.ⁱⁱⁱ

One example of potential progress is Fitch Ratings' April 2025 discussion paper on its proposed "Climate Vulnerability Signals" (Climate.VS) framework. Aimed to identify and assess potentially credit-relevant climate risks for banks, insurance companies, and non-bank financial institutions (NBFIs), the tool would evaluate physical and transition risks over the 2025–2050 horizon using quantitative indicators, forward-looking climate projections, and qualitative judgments.^{iv}

Overall, the sector demonstrates uneven but evolving attention to climate risk. While some agencies are piloting tools and disclosure, climate is still generally treated as a parallel concern—secondary to core credit metrics and largely optional. This patchwork of approaches highlights a sector still navigating its role in the sustainable finance landscape, constrained by regulatory uncertainty, methodological inconsistencies, and longstanding business model pressures.

This variability is captured in the average SLCE rating across the sample, which ranged from 1.0 to 2.5. While agencies have introduced ESG products and voluntary disclosures, few have taken concrete steps toward explicit integration of this information, underscoring how ESG continues to operate adjacent to, rather than embedded within, core credit evaluation frameworks.

Opportunities to advance an SLCE

Despite uneven progress, CRAs are uniquely positioned to become sustainability leaders within financial markets. Several emerging practices suggest pathways toward SLCE 3.0 alignment.

One opportunity lies in working with independent ESG data verifiers or third-party auditors to validate methodologies and disclosures provided by entities seeking a credit rating. This would enhance trust, support regulatory alignment, and address concerns flagged in a 2025 OECD review, which noted that only 31% of companies providing ESG data obtain external assurance, contributing to low comparability and credibility in the market.^v

Framework alignment is another area for advancement. By incorporating standards like the Task Force on Climate-related Financial Disclosures (TCFD) and the Partnership for Carbon Accounting Financials (PCAF), agencies can better capture the financial implications of climate risks. Such integration would strengthen credit assessments and reflect growing market expectations for transparent, forward-looking sustainability analysis.

Standalone ESG products also offer promise. Agencies such as Moody's and Fitch have developed parallel ESG ratings—Moody's ESG Solutions and Sustainable Fitch, respectively—that could be standardized and integrated into decision-making. While these tools remain distinct from core credit ratings, they lay the groundwork for more embedded ESG integration in the future.



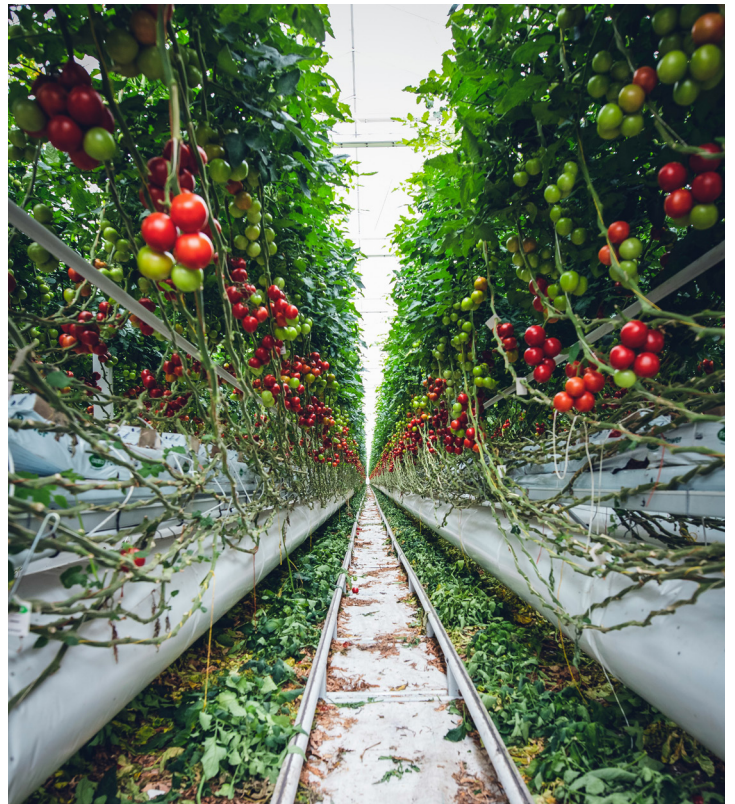
Finally, CRAs influence markets not just through their ratings but also through market education. By leveraging their analytical expertise, agencies can help investors and issuers better understand the financial materiality of ESG risks, shaping demand for more robust sustainability practices across the capital markets ecosystem.

Pain Points

Several structural and market-based barriers continue to constrain progress. CRAs operate in a regulatory grey zone regarding ESG, unlike banks and asset managers. Although the European Union adopted a legislative framework in 2024 to govern ESG ratings, it applies only to standalone ESG rating providers, not to CRAs unless they also issue such ratings. The European Securities and Markets Authority (ESMA)'s May 2025 consultation paper further clarifies this distinction, focusing on technical standards for methodology, governance, and transparency for dedicated ESG rating providers.^{vi} ESMA's April 2024 consultation separately proposed targeted changes to the Credit Rating Agencies Regulation (CRAR), requiring CRAs to disclose when ESG factors materially influence a credit rating decision.^{vii} These proposals have not yet been finalized but signal the EU's initial move toward directly regulating ESG integration within core credit rating practices.

There is currently no common framework for integrating ESG considerations into credit ratings, leading to a patchwork of methodologies that undermine transparency and comparability. A core challenge lies in the misalignment between ESG risks—often long-term and systemic—and the short-term default probabilities at the heart of traditional credit assessments. While some agencies recognize this gap, few have adopted climate scenario analysis or other tools capable of addressing it. Bridging this divide would require investment in data systems, modeling expertise, and analytical talent—resources not all agencies are willing or able to allocate.

Compounding these difficulties are persistent transparency gaps and the absence of standardized ESG metrics and benchmarks. These issues have contributed to growing stakeholder skepticism, rooted in longstanding concerns about CRA accountability following the 2008 financial crisis. Still, CRAs remain structurally well-positioned to move toward SLCE 3.0—provided they can coordinate around consistent methodologies, embrace greater public accountability, and respond to evolving regulatory expectations.



Additional reading and resources for credit rating agencies

- **Institute for Energy Economics and Financial Analysis (IEEFA):** [A Matter of Opinion: Credit Rating Agency Evolution on Climate Change Risk and Fossil Fuel Financial Viability](#)
- **OECD:** [Behind ESG Ratings: Unpacking sustainability metrics](#)

Endnotes

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About the Authors

High Meadows Institute is focused on the role of business leadership in society. Our mission is to contribute to sustainable economic and social progress in a global economy and society. High Meadows Institute was founded in 2013 by a small group of senior business and finance leaders with deep experience in the private and non-profit sectors. The Institute works in close partnership with other leading think tanks and academic and business organizations to advance its mission.

17 Communications is a mission-driven marketing and communications consultancy specializing in the ESG, impact investing and sustainable finance sectors. We are committed to catalyzing the flow of capital towards sustainability and impact-oriented investments and solutions through a combination of communications, advocacy, research and education.



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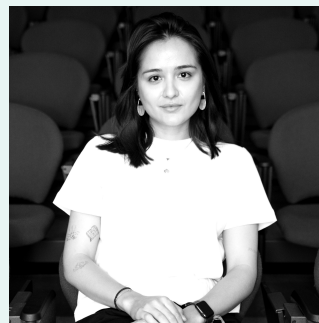
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Developed in partnership with:

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