Analysis of ESG Ratings Methodologies in the Russian Market: Transparency and Convergence Issues

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Abstract
The reliability of ESG ratings as a tool for assessing the sustainability performance of organizations has been extensively studied and often questioned by researchers and international organizations. In response to the criticism, national regulations have emerged to address the problems identified in the ratings and their causes. Russia is no exception, where the market for ESG ratings has grown significantly in the last two years.

The aim of this article is to assess the level of transparency of ESG ratings methodologies in the Russian market and to determine whether there is a convergence of methodologies.

To achieve this goal, based on the publications of foreign and Russian authors, international organizations and the Bank of Russia, the author analyzed the methodologies for assigning leading Russian ratings, developed and applied a methodology for assessing the level of transparency of such methodologies on the basis of ten parameters.

The article provides a brief overview of the main problems inherent in ESG ratings and addressed in the literature, as well as the way they are addressed by regulatory norms in a number of foreign countries and in the Russian Federation. In order to verify the implementation of the Bank of Russia's recommendations in the updated ESG rating methodologies, the approaches of four agencies—Analytical Credit Rating

Agency, Expert RA, RAEX, and National Rating Agency—were analyzed from the point of view of transparency and convergence; the methodologies of the agencies were assigned transparency scores.

Conclusions were drawn on a certain convergence of the agencies' approaches to ESG assessment, mainly in terms of rating scales and weighting of ESG components, as well as on the generally high level of transparency of Russian ESG rating methodologies.

Introduction

In light of the decision by the majority of foreign agencies to cease assigning ESG ratings to Russian companies, there has been a notable surge in the number of requests from Russian entities seeking domestic assessments of their sustainability performance. In the country in question, a market has emerged wherein ESG assessment is reflected in a rating, ranking, or index. The former product is distinguished by the fact that a company or other entity applies to an agency for a rating and can provide internal documents in addition to the publicly accessible sources utilized by agencies. Completing a questionnaire and participating in an interview has become practice for an entity rated. In the current context, the primary motivation for pursuing a rating is to obtain an impartial external evaluation of performance, namely to assess the quality and maturity of sustainability practices [National Rating Agency and Kirillova 2022]. The second category of products comprises rankings and indices that rank and group organizations selected by agencies based on an assessment of publicly available information. In certain instances, however, questionnaires are also employed in the formation of such assessment instruments.

In light of the growing number and scope of Russian ESG ratings, it is crucial to gain insight into the current methodological approaches employed by Russian agencies in the compilation of these ratings, particularly in the context of the introduction of "soft" market regulation in the country. The objective of this study is to analyze these methodologies and assess their level of transparency.

The first section presents a theoretical and practical overview of ESG ratings, while the second outlines the recommendations of the Bank of Russia aimed at ensuring harmonization of ESG ratings. The third section analyzes the methodologies of existing Russian ratings and assesses their transparency. The final section presents the key findings and conclusions of the analysis.

The article employs a number of terms related to methodologies that require clarification. In particular,

- *ESG component (or block)* – one of the three components of the ESG rating: environmental, social responsibility or corporate governance; it is at the second level of detail after the composite rating;
- *Element* (third level of detail) – a thematic aspect of a component, representing a group of indicators (e.g., climate, waste management, occupational health and safety, risk management, governance bodies);

- *Indicator* (or metric) – a quantitative or qualitative indicator of the most detailed level (e.g., greenhouse gas emissions of a particular coverage, employee turnover, lost time injury frequency rate, proportion of independent members on the board of directors); all calculations are based on the indicator score.

1. Theoretical and practical foundations of ESG rating

The objective of an ESG rating is to provide market participants with information regarding the potential risks to which an organization may be exposed and which may impact its economic and financial position. Additionally, ESG ratings offer insight into the quality of corporate programs in the domains of environmental protection, social responsibility, and corporate governance. The predominant approach to assigning sustainability ratings is to assess the degree of exposure to ESG risks and the quality of their management. However, there is no clear consensus in the academic literature or in practice as to whether ESG rating models predict investment risk or investment returns [Larcker et al. 2022]. Additionally, some agencies seek to quantify the environmental and social impact, the degree of transparency in information disclosure, and the level of commitment to the ESG agenda.

A key issue inherent to ESG ratings is the phenomenon of divergence, whereby the ratings assigned to the same company may differ significantly. The phenomenon of divergence in ESG ratings has been the subject of extensive study in the international literature and has been addressed in publications by Russian authors. A number of reasons for divergence have been identified in the literature. Firstly, the divergence is attributed to the utilization of differing data sources, including solely public data, questionnaires completed by organizations, and supplementary information obtained privately from the rated individuals [Halper et al. (2022); Larcker et al. (2022)]. Secondly, a variety of methodological discrepancies exist. These include the use of different groups of items and different indicators for the same elements, the application of different weights to indicators, elements, and each of the three ESG components, and the use of differing rating scales [Berg et al. 2022; Halper et al. 2022; Larcker et al. 2022; Fukami et al. 2022]. Methodological aspects can also include the manner in which analysts determine how to handle missing data [Larcker et al. 2022]. Thirdly, researchers have identified a tendency for higher ratings to be assigned to larger companies, which can be attributed to the greater availability of resources for the preparation and disclosure of information. Additionally, different ratings are observed across geographical regions [Halper et al. 2022; Larcker et al. 2022]. For instance, European companies are rated more highly than their US counterparts, while organizations in developing and transition countries are rated less favorably than those in developed countries. This may be attributed to disparate levels of regulatory oversight pertaining to the sustainable development agenda.

The consequence of the divergence problem is that fund managers use unreliable information when making investment decisions and informing investors, taking into account multiple ratings at the same time, which entails the cost of studying each rating agency's approach to rating companies, as well as the introduction of their own ESG rating models by large investment companies and banks.

Some authors see the solution to the divergence problem in the development of regulatory standards for the publication of high-quality, verifiable non-financial reporting [Levashenko et al. 2023]. However, a number of researchers [Larcker et al. 2022; Christensen et al. 2022] point out that increasing the level of disclosure of ESG information does not lead to a reduction in rating divergence, as it is not the availability (and volume) of information that matters, but how it is interpreted. That is, the more information, the wider the field for divergent interpretations.

Other suggestions in the literature include the approach of rating each component (environment, social responsibility, and corporate governance) separately, as investors and asset managers of funds may prioritize certain ESG areas [Larcker et al. 2022] (e.g., for some aspects of the climate agenda are of greater weight and importance).

Other shortcomings of the ESG rating market identified in academic articles and regulatory publications in the period 2020–2023 are the conflict of interest associated with the simultaneous provision of rating and advisory services by agencies, and the problem of user perception of the outcome of the rating (when the impact of environmental, social and governance factors on the performance and sustainability of organizations is actually assessed, but it may seem that there is an assessment of the impact of the rated entity on the environment and society) [Halper et al. 2022; Larcker et al. 2022; Fukami et al. 2022].

The problems identified and their solutions are reflected in the International Organization of Securities Commissions (IOSCO) 2021 report [IOSCO 2021], whose activities have become the driving force behind the development of national regulations of ESG ratings markets. Many foreign regulatory initiatives focus on increasing transparency, solving the problem of conflicts of interest and improving internal control systems in agencies, and do not contribute to the convergence of ESG ratings [Khachatryan 2022]. This approach is in line with the recommendations of IOSCO and the Organization for Economic Co-operation and Development, whose publication emphasized the importance of ensuring the transparency of the rating process, methodologies and data sources used for institutional investors [Fukami et al. 2022]. However, as some researchers have noted [Larcker et al. 2022], transparency of approaches alone will not promote convergence; consensus on the methodologies themselves is needed.

Similar to some countries, the Central Bank of the Russian Federation has chosen the path of "soft" regulation, publishing recommendations on methodology development and ESG ratings in 2023 [Central Bank 2023]. As illustrated in the following section, the Bank of Russia has put forth a series of measures aimed at addressing a more expansive array of concerns, including the issue of divergence.

2. Recommendations of the Bank of Russia on approaches to ESG ratings

The document of the Bank of Russia states that the purpose of the developed recommendations is to harmonize ESG ratings. This concept includes ensuring visibility, transparency and comparability of sustainable development ratings [Central Bank 2023]. The Central Bank points to the need to harmonize the definition of ratings and the rating scale (Table 1 on p. 61 reflects the scale proposed by the Bank), as well as the use of a minimum set of elements. The regulator's focus on these three issues appears to be a step toward addressing the problem of divergence in ESG ratings.

Table 1. ESG rating scale recommended by the Bank of Russia

Aggregate level	Level / Detailed category
ESG-A – high level	ESG-AAA
	ESG-AA
	ESG-A
ESG-B – medium level	ESG-BBB
	ESG-BB
	ESG-B
ESG-C – low level	ESG-C

Source: [Bank of Russia 2023].

One of the most important components of the harmonization objective is to increase the transparency of ESG ratings issued in the Russian market, for which the Bank of Russia recommends that agencies disclose the following aspects: subject matter (explanation of what the rating expresses), sources of information used, procedures for data collection, processing and weighting; calculation values and basic calculation methodology, significant adjustments, individual ratings by component and the procedure for combining the three components into a composite rating, as well as the values of the elements by component. In addition to the recommendations on disclosure of the above, the Bank of Russia proposes a number of procedures—in particular, regular (annual) review of methodologies and updating of the rating of each entity, regular (quarterly) monitoring of individuals, and assigning ratings on a comparative basis (by means of intra-group comparison of individuals).

The regulator also proposes the introduction of a number of measures to address conflicts of interest (including the separation of ESG rating staff from sales staff), to address the qualifications of analysts conducting the assessment and to ensure communication with the rated entity (including the introduction of a feedback process that is highly relevant to the companies whose performance is being assessed).

In connection with the updating of sustainability rating methodologies by leading agencies following the publication of the Bank of Russia's recommendations, it is interesting to analyze the current approaches to rating, particularly in terms of the transparency of rating methodologies and the prospects for their convergence.

3. Analysis of ESG rating methodologies

3.1. Methodologies of leading Russian ESG ratings on request

This section reviews the methodologies of the agencies selected by the number of ESG ratings assigned in the on-demand format as of early June 2024. The main focus is on key issues related to unification and transparency of methodologies.

ACRA

The Analytical Credit Rating Agency (ACRA) is a credit rating agency that has been accredited by the Bank of Russia. Additionally, the agency assigns ratings in the domain of environmental, social and governance (ESG) criteria. Currently, twenty organizations have been assigned this type of rating. The assessment methodology and relevant annexes for individual entities are published on the ACRA website, thereby facilitating the incorporation of industry-specific considerations. In particular, thematic supplements have been developed for non-financial companies, financial organizations, sub-sovereign entities (constituent entities of the Federation and municipalities), and leasing and insurance companies. The rating list, accessible via the website, includes several mutual funds that underwent the rating procedure in 2023.

In the underlying methodological document, ACRA states that it assesses "organizations' performance in the field of environmental and social responsibility, corporate or public governance" [ACRA 2024]. The multicomponent nature of the assessment subject is revealed through three distinct stages, which are outlined in each of the three ESG blocks. In order to assign quantitative scores to non-financial companies, it is first necessary to analyze the indicators which characterize the activities of the rated entities in the blocks of environment, social responsibility and governance, including impact aspects. This stage is accorded a weight of 40%.

Secondly, the assessment evaluates the actions undertaken by the entities to mitigate and resist the environmental, social and corporate governance risks inherent to their operations. This stage accounts for 30% of the total weight. In regard to ESG risks, ACRA's approach is as transparent as possible, with lists of social and environmental risk factors presented for twelve industries, as well as a universal list of risks related to the governance block. The methodological applications for non-financial organizations and financial institutions can be characterized as also being of an informational and educational nature. In addition to providing a list of risk factors for companies by industry, the descriptions of possible negative consequences allow rating objects to either form (or increase) the level of understanding of the relevance and significance of ESG risks.

Thirdly, ACRA assesses the compliance of the rated entity with the best practices presented by the agency for each of the ESG blocks and for each type of entity in the respective thematic annexes. Notable examples of best practices among non-financial companies in the domain of environmental responsibility include the calculation and verification of product carbon footprints, the external verification of greenhouse gas emissions data, the implementation of biodiversity conservation programs with defined quantitative targets, and the conduct of scenario analysis to evaluate the impact of climate change on organizational operations. Among the less prevalent ESG indicators in the social domain is collaboration with higher education institutions to promote human resource sustainability. In addition to the aforementioned practices, supporting key national development goals and government programs is also common practice. This may include, for example, parental support and employee housing programs. The latter are in place at major Russian industrial holdings. The practices presented in the corporate governance block have long been well known to large non-financial companies that are guided by Russian regulations (primarily the Corporate

Governance Code issued by the Bank of Russia in 2014) and are familiar with foreign ESG ratings.

The difference between the stages of assessing financial institutions is that the first stage assesses the risks of the organization's portfolio; the weights of the stages are also different (see Table 2 on p. 63).

In the case of sub-sovereign entities, there are two stages of the assessment—quantitative analysis and qualitative consideration of factors affecting the environment, society and governance.

Table 2. Weights of stages of assigning grades to non-financial companies and financial institutions for each block of ACRA ESG rating

No	Stage for non-financial companies	Weight	Stage for financial institutions	Weight
1	Performance evaluation	40%	Risk assessment / portfolio relevance	40%
2	Assessment of actions to minimize risks	30%	Own risk assessment	20%
3	Level of compliance with best practices	30%	Level of compliance with best practices	40%

Source: [ACRA 2024].

The ACRA rating scale comprises seven categories and 17 levels, with each level being assigned based on the numerical score falling within a specific range. The letter scale of the non-financial rating is reflective of the recommendations set forth in the model methodology, with the exception of the categorization of the ESG-B category, which is characterized as a low result rather than an average result, as proposed by the regulator.

The relative weight of each of the three blocks in the assessment of non-financial companies and financial institutions is identical, equating to one-third of the total assessment. Furthermore, the scoring system for the indicators is transparent and readily comprehensible. It is noteworthy that the methodology employs a system of positive and negative modifiers, whereby good practices are rewarded with additional points, while incidents and inappropriate impacts on society and the environment are penalized with points. Examples of such bonuses include the proportion of recycled water used in water consumption exceeding 85%, generation or consumption of a significant proportion (exceeding 70%) of energy from renewable sources, annual salary revision of 100% of employees at a level not lower than inflation, a high proportion (exceeding 30%) of women in top management and among board members, disclosure of audit results of quality control systems, training of suppliers on ESG aspects, and others.

In regard to the documentation of incidents, the assigned score is contingent upon the severity of the impact and the elapsed time since the occurrence. The penalty point is highest when the incident took place within the past year and lowest when it occurred more than five years ago. In the case of low-impact incidents, no penalty point is applied when the time period in question exceeds five years. In accordance with the established methodology, the response of the responsible organization is not a factor in this assessment.

The Agency provides a detailed account of the procedure for revising the methodology, noting that this occurs on an annual basis and that each change is subject to disclosure on the official website.

In the event that the rated entity consents, the agency analysts, in collaboration with representatives of this entity, prepare a press release for the website, which discloses the principal aspects of the assigned rating.

Expert RA

The Expert RA Rating Agency is accredited by the Bank of Russia and has considerable experience in the assignment of credit ratings. Twenty organizations have been assigned an ESG rating. The rating agency's opinion is based on an assessment of the extent to which the key decision-making process of the rated entity is oriented toward sustainable development in the environmental, social, and governance areas. [Expert RA 2023]. The environmental block is concerned with the analysis of the rating object's approaches to policy and the actual environmental impact. In the domain of social responsibility, the agency also elucidates its assessment of the organization's policy approaches and its tangible interactions with employees, clients, and the broader society. In the third ESG area, the assessment encompasses the governance issues and the actual protection of stakeholder rights.

The indicators utilized for the three aforementioned blocks, in addition to the scoring procedure (which incorporates positive and negative adjustments), are presented separately for companies, regions, and urban districts. The indicators for companies are largely universal; however, there are indicators that are specific to financial organizations, such as the responsible investment policy.

The relative weights of the various factors are subject to variation, depending on the specific object under consideration (see Table 3 on p. 64). It is noteworthy that the environmental component of the rating carries less weight for non-financial companies and regions. However, the environmental impact of companies can cause significant damage. Secondly, in its rating, which essentially represents an impartial third-party assessment of the quality of sustainable development activities and serves as a benchmark for best practices, the agency does not accord sufficient importance to environmental issues that fall under the purview of the relevant regional and city ministries and directly impact the health and quality of life of the population.

Table 3. Expert RA ESG rating factor weights by object

Factor	For financial companies	For other companies	For regions and urban districts
Environment (E)	15%	30%	30%
Society (S)	40%	35%	50%
Governance (G)	45%	35%	20%

Source: [Expert RA 2023].

With regard to the rating scale, it should first be noted that the methodology was updated in December 2023. This provides a comparison of the categories and levels of the agency's scale with that recommended by the Bank of Russia. Secondly, a recalculation of the numerical scores is presented in the format of ranges for each of the seven levels of the Bank of Russia's recommended scale.

Expert RA enumerates the adjustments that may result in an increase or decrease in the assessment of indicators. It is crucial to highlight that the agency mandates analysts to substantiate adjustments and present them to a designated committee, thereby reducing the potential for subjectivity in assessments that may arise from such adjustments (a topic addressed in [Buchinskaya 2023]). Stress factors encompass significant incidents, instances of legislation non-compliance, and a negative business reputation of the organization, its proprietors, or its management. In the event of a critical incident (defined by the agency as a natural disaster, social conflict, or complete shutdown of production by a company, or the risk of such a shutdown), regardless of the scores assigned to other indicators, the object will be assigned one of the two lowest ratings (ESG-V or ESG-W), corresponding to the ESG-C category according to the model methodology. Nevertheless, there is a potential avenue for avoiding this "punishment" that considers the actions of the rated entity to mitigate the consequences of the events and prevent their recurrence in the future.

RAEX

RAEX (RAEX-Analytics) is another ESG rating agency that was previously part of Expert RA media holding (and later separated into a separate consortium). Over the past few years, it has gained popularity in the corporate environment due to the regular publication of ESG rankings. In 2024, the agency published a new methodology, the key aspects of which are discussed in the following section. It is noteworthy that in the presentation of its new methodology, the agency highlighted a distinction between two types of ratings: those formed on the basis of exclusively public sources of information (referred to as "publicly observed"), which form the basis for rankings, and those prepared on request.

The RAEX ESG rating represents the agency's assessment of the extent to which the rated entity effectively manages its exposure to environmental, social and governance risks [RAEX Rating Consortium 2024]. Concurrently, the agency indicates that "reasonable efforts have been made" to guarantee the principle of double materiality. Despite the derived definition, the assessment conducted by RAEX also attempts to consider the impact of the company in question—the rating object—on the environment, society, and the economy. Nevertheless, the scale discussed below indicates that the primary focus of the assessment is the quality of risk management.

The methodology was developed with the introduction of aspects of International Financial Reporting Standards (IFRS) in the field of sustainable development and climate change (known under the acronyms IFRS S1 and S2) and with consideration of the recommendations of the Bank of Russia. The risks (indicators) are analyzed and assessed in accordance with IFRS S1 in three areas that are already well-known to ESG-aware companies, representing "channels of influence on ESG risks." These areas are governance and strategy (weight: 20%), risk management system (30%), and achievement of efficiency (50%). The "governance and strategy" strand encompasses policies, programs, and strategies, whereas the "performance achievement" category gathers objectively quantifiable characteristics, typically observed over a four-year period. The detailed metrics are organized according to the aforementioned three channels of influence, which are then aggregated into a thematic element value, with the weighting of each of the three areas indicated in parentheses above. Two categories of elements were established: basic, which are common to all objects, and unique, which reflect the particular characteristics of a given industry and are prepared in accordance with the standards set forth by the International Financial Reporting Standards (IFRS) for non-financial reporting.

The rating system considers not only industry-specific factors but also incorporates values from country, industry, and territorial risk matrices, as well as the individual characteristics of the rated entity, in order to assess the level of exposure to various types of ESG risks. However, in contrast to ACRA, the agency under consideration does not publish a list of risk factors organized by industry, country, or territory.

The ESG rating scale is analogous to the national and international credit rating scale, comprising nine levels, each corresponding to a specific range of scores expressed in percentages. The relative weight of each factor (E, S, and G) is held constant, and the calculation procedure, as outlined in the formulas, is transparent and as detailed as possible.

In regard to stress factors, public information regarding controversies in the current year and the previous two years is analyzed in order to calculate them. This approach is particularly appealing to the corporate sector, because in the case of foreign ratings agencies such as MSCI, Sustainalytics, ISS ESG, and others, each negative incident may have a prolonged impact on the assessment. In a manner analogous to the assessment of penalties for incidents in foreign ratings, RAEX considers both the level of severity (evaluated according to the scale and seriousness of the impact) and the rated entity's response to such incidents. This response is assessed in terms of the entity's actions taken to address the incident, the elimination of consequences, and the implementation of preventive measures to avoid a recurrence of the situation in the future. To illustrate, in the event of a high level of severity and a high level of response, the penalty score would be 25% out of 100%. In contrast, a score of 100% would be assigned when the company does not respond and does not accept responsibility for the event.

Similar to ACRA, RAEX delineates the circumstances under which its methodology is subject to revision and is obliged to publicly disclose any modifications made. A further noteworthy aspect of the agency's methodology is its consideration of the extent to which companies' non-financial reporting is subject to third-party verification.

National Rating Agency

The National Rating Agency (NRA) is included in the register of credit rating agencies maintained by the Bank of Russia. The number of organizations that have been assigned ESG ratings by the National Rating Agency is fewer than those discussed above. As evidenced by the rating list published on the NRA website, the agency has been assigning sustainability ratings since the end of 2020. In contrast with the aforementioned ratings, the website lists a constituent entity of the Federation, namely the Yamalo-Nenets Autonomous District, which received a high rating this year.

The subject of the assessment is twofold: firstly, the characteristics of the Rated Entity's sustainability performance, which reflect potential environmental and social impacts; and secondly, the exposure to and management of ESG risks over a horizon of one to three years [National Rating Agency 2023].

In its approach to the assessment, the NRA adheres to the principle of sectoral diversification, which entails the selection of elements for analysis based on the organization's attribution to a specific industry. To reflect the particular characteristics of each sector, a table is provided for each group of indicators, indicating which of them are not applicable to certain sectors.

Another principle, that of averaging, concerns the calculations. In its description of the methodological approaches, the NRA draws attention to the leveling of the significance of the impact of any of the indicators by applying arithmetic mean values in the calculation of scores for each of the three blocks. The same approach of equal significance is applied to the calculation of the composite rating. The NRA ESG rating scale is entirely consistent with the one proposed by the Bank of Russia.

In addressing negative events, the NRA employs a two-pronged approach. Firstly, specific indicators are dedicated to these aspects within each block. Secondly, a dedicated section on negative adjustments is presented, noting that the factors can be identified throughout the rating maintenance period. However, the agency does not specify the circumstances under which their consideration in the assessment might be removed. In the event of violations pertaining to environmental and social issues, the NRA considers the degree of transparency exhibited by the entity responsible for the violations. Additionally, the agency takes into account the measures implemented to directly address the consequences of such incidents within the context of environmental assessments.

As with ACRA and RAEX, the NRA methodology is subject to annual revision, with the grounds for this specified in the methodology document.

Furthermore, all four agencies disseminate press releases on their websites regarding the assigned ratings. However, the degree of detail in these releases varies, which may be attributed not only to agency practice but also to the willingness of the rated entity to disclose a specific amount of information. In general, agency press releases provide a brief rationale for the assigned ratings, a list of the key assumptions utilized in the rating process, and, in some cases, factors that may potentially affect the rating level in the future. The rating levels by ESG components (according to the agencies' scales) are presented by all except Expert RA.

3.2. Assessing the level of transparency of methodologies

In light of the aforementioned theoretical and methodological aspects of ratings, as well as the recommendations of the Bank of Russia and practical experience in the field of sustainability ratings (in corporations), we put forth a methodology for assessing the level of transparency of ESG rating methodologies assigned to companies and financial institutions.

Ten indicators (or parameters), which are presented (or not presented) in ESG rating methodologies, were selected for evaluation (see Table 4 on p. 68). The selection of parameters for analysis is primarily based on the recommendations set forth by the Bank of Russia. The majority of parameters are evaluated according to a 0-1 system, whereby the lowest level indicates the absence of an indicator in the methodology, and the highest level signifies its disclosure. Several parameters allow for a broader range of scores. In particular, the indicator reflecting the presentation of formulas and calculation procedures varies depending on the degree of their detail and ease of presentation (including a clearly laid out structure). This indicator also includes the Central Bank's recommendation to disclose the algorithm for combining ESG components into a consolidated rating. The indicator of industry specifics is graded on a scale of 0-0.5-1, with the intermediate option representing the presence of information on sectoral aspects in the methodology without the specification of sectoral details. Another crucial parameter for companies that receive ESG ratings is the description of the methodology employed to account for adverse events pertaining to the activities of the rated organization, such as accidents or violations of laws and regulations. The corporate environment has expressed criticism of the methodologies employed by numerous leading foreign agencies, including MSCI, Sustainalytics, and ISS, which stipulate the reduction of points over an extended period following the occurrence of a negative event. Furthermore, the failure to acknowledge the efforts made by the culpable organization detracts from the quality of the rating and its favorable perception by organizations. In this regard, it is crucial for those seeking an ESG rating to have comprehensive insight into the methodologies employed in accounting for such events. This information is incorporated into the scoring system for this parameter, as outlined below:

- 0 points – stated consideration of events in the assessment without additional information or events are not considered at all;
- 0.25 – it is noted that negative events are accounted for and scores are indicated;
- 0.5 – points are indicated, and events taken into account are listed;
- 0.75 – scores are indicated, events are listed, and either there is information on the timing of the agency's consideration of the event or response actions are considered;
- 1 – points are given, factors are listed, there is information about the timeframe for taking the event into account and the company's response measures are taken into account.

The final score is compiled by summing the scores for the ten parameters.

Table 4. Indicators for assessing the level of transparency of ESG rating methodologies

No	Disclosable parameters	Possible points
1	Defining the subject of the evaluation (what the rating expresses)	0; 1
2	List of information sources	0; 1
3	Description of evaluation steps/procedure	0; 1
4	Scale	0; 1
5	Weighing	0; 1
6	Details of formulas / calculation procedure, including algorithm for combining ESG components	0; 0.5; 1
7	Indicators (metrics) and their scores	0; 1
8	Consideration of industry specifics	0; 0.5; 1

No	Disclosable parameters	Possible points
9	Approach to accounting for adverse events	0; 0.25; 0.5; 0.75; 1
10	Procedure for revising the methodology	0; 1
–	**Total**	**0-10**

Source: compiled by the author.

A score falling within a certain range gives a certain level of transparency to ESG rating methodologies (see Table 5 on p. 69).

Table 5. Scale for assessing the level of transparency of ESG rating methodologies

Level (category)	Points
Highest level	9–10
High	7–8
Medium	5–6
Low	3–4
Extremely low	1–2

Source: compiled by the author.

Based on the analysis of the methodologies of the above reviewed agencies, their transparency was assessed according to the proposed methodology, the results of which are presented in Table 6 (p. 69). Three agencies—ACRA, NRA, and RAEX—were assigned scores allowing them to be classified in the highest category; Expert RA methodology was assessed as having a high level of transparency.

Table 6. Assessment of the level of transparency of methodologies in Russian ESG ratings

No	Disclosable parameters	ACRA	Expert RA	RAEX	HPA
1	Determination of the subject matter	1	1	1	1
2	List of information sources	1	1	1	1
3	Description of the evaluation steps / procedure	1	1	1	1
4	Scale	1	1	1	1
5	Weighing	1	1	1	1
6	Details of formulas / calculation order, including algorithm for combining ESG components	1	0.5	1	1
7	Indicators and their scores	1	1	1	1
8	Consideration of industry specifics	1	0.5	0.5	1
9	Approach to accounting for adverse events	0.75	1	1	1
10	Procedure for revising the methodology	1	0	1	1
–	**Total**	**9.75**	**8**	**9.5**	**10**

Source: compiled by the author.

Conclusions

The examination of the methodologies utilized by prominent Russian agencies in their ESG rating processes enables the formulation of conclusions pertaining to the convergence of approaches promoted by the Bank of Russia. It is notable that two agencies, ACRA and NRA, have rating scales that are identical to the one proposed by the Bank of Russia. Furthermore, the RAEX levels are comparable, and Expert RA provides a table of compliance with the scale based on the recommendations of the Bank of Russia. Secondly, ACRA, RAEX, and NRA assign equal weights to ESG components (Expert RA's weights vary), which also indicates a convergence of approaches to assessment. Thirdly, there is no unification of the formal definition of ESG ratings. However, it is notable that the NRA definition coincides with the one recommended by the Bank of Russia.

The examination of the parameters that define the level of transparency in the methodologies of the leading ESG ratings revealed that the agencies have incorporated the recommendations of the Bank of Russia regarding information disclosure. In particular, the methodologies provide transparency regarding the definition of the rating, the sources of information utilized, the procedures for data processing and weighting, the method of combining components into a consolidated rating, and the evaluation indicators. In addition, three out of the four agencies under review have established transparent procedures for revising their methodologies, in accordance with the recommendations of the regulatory authority. The official websites of the agencies include press releases on the ESG ratings, which disclose information on individual components and, in some cases, on elements. The combination of these factors allows us to conclude that the procedures for assigning ESG ratings by Russian agencies are highly transparent.

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