ESG RATINGS DECODER CARD: THE FIVE SYSTEMS COMPARED

Quick-reference field guide condensing what each major rater measures, their underlying scale, scoring direction, peer-relative vs. absolute construct, and primary capital audience.

1. MASTER 5-SYSTEM COMPARISON MATRIX

Provider & Owner	What It Measures	Scale & Direction	Relative or Absolute	Primary Audience
MSCI ESG Ratings MSCI Inc.	Resilience to financially material, industry-specific ESG risks & opportunities (financial materiality lens).	**AAA → CCC** (7 tiers) 0–10 underlying score. HIGHER IS BETTER	**Industry-relative** Normalized vs. GICS sub-industry peers.	Asset managers, index funds, global institutional equity.
Morningstar Sustainalytics Morningstar	Magnitude of a company's *unmanaged* ESG risk (exposure minus management).	**0–100 risk score** 5 risk bands (Negligible → Severe). LOWER IS BETTER	**Absolute** Directly comparable across industries & regions.	Investors, retail brokerages, corporate risk teams.
ISS ESG Corporate Rating ISS STOXX (Deutsche Börse)	Absolute ESG performance vs. demanding best-in-class expectations for its sector.	**A+ → D–** (12 grades) Prime / Not Prime bar; Decile rank 1–10. HIGHER IS BETTER	**Absolute grade + relative decile** (meets standard + ranks vs. peers).	European institutional investors, sustainable mandate funds.
CDP CDP (Nonprofit Platform)	Completeness & ambition of environmental *disclosure* and action (Climate, Water, Forests).	**A / A– → D / D–** + F for non-response. HIGHER IS BETTER	**Absolute** Criteria-based scoring through Essential Criteria gates.	Institutional investors, supply-chain procurement teams.
EcoVadis EcoVadis	Quality of supplier sustainability management system via Policies-Actions-Results (P-A-R).	**0–100 score** Medals by percentile (Bronze → Platinum). HIGHER IS BETTER	**Relative** Percentile rank vs. all companies assessed in prior 12 mo.	Corporate procurement, supply-chain vetting teams.

CRITICAL TRAP: DIRECTIONALITY MISALIGNMENT

Sustainalytics is LOWER is better; the other four are HIGHER is better. Reversing this direction is one of the most common ESG mistakes in board decks and investor memos.

- A Sustainalytics score of **13.5** is **Low Risk** (favorable), not a failing grade.
- An MSCI score of **B** or **CCC** is a **Laggard** rating, not an acceptable mid-tier pass.

CONSTRUCT SEPARATION: DIFFERENT QUESTIONS

A "good" score in one system does not translate to another because raters measure fundamentally different constructs:

- **MSCI:** Is this company managing its material risks better than GICS peers?
- **Sustainalytics:** How much unmanaged risk remains on the table in absolute terms?
- **CDP:** How complete and verified is environmental reporting?

2. SCALE DECODERS & CRITICAL THRESHOLDS

Rater	Tiers, Bands & Percentiles	Governing Threshold	Core Operational Rule
MSCI ESG	**Leader:** AAA, AA **Average:** A, BBB, BB **Laggard:** B, CCC	Underlying 0–10 score normalized within GICS sub-industry.	Weightings are **5% to 30%** per Key Issue. Managing an immaterial issue will not move the score.
Sustainalytics	**Negligible:** 0–10 • **Low:** 10–20 **Medium:** 20–30 • **High:** 30–40 **Severe:** 40+	Unmanaged Risk = Exposure − Managed Risk per MEI.	Absolute across sectors. High exposure can be offset by demonstrating robust policies and verified programs.
ISS ESG	12 letter grades: A+ down to D– Decile rank: 1 (best) to 10 (worst).	**Prime status:** Industry bar (often C+, higher for exposed sectors).	Binary Prime status drives European capital inclusion far more than incremental grade shifts.
CDP	**A/A–:** Leadership (A List) **B/B–:** Management • **C/C–:** Awareness **D/D–:** Disclosure • **F:** Non-response	Essential Criteria gates apply at *every* scoring tier.	**Scope 1 & 2 external verification** is mandatory to achieve top leadership scores.
EcoVadis	**Platinum:** Top 1% • **Gold:** Top 5% **Silver:** Top 15% • **Bronze:** Top 35%	**Sub-30 Cutoff:** <30 in any single theme bars company from all medals.	Evaluates 21 criteria across 4 themes using Policies-Actions-Results (P-A-R) documentation.

3. WHY ESG RATINGS DISAGREE: THE ACADEMIC RESEARCH (BERG ET AL. 2022)

While credit ratings (Moody's and S&P) correlate at ~0.99, ESG ratings correlate at an average of just **0.54** (ranging from 0.38 to 0.71). Landmark research by Berg, Kölbel & Rigobon (*Review of Finance*, 2022, "Aggregate Confusion") proves divergence is mathematical, not random:

CORRELATION BY DIMENSION

Overall ESG Correlation:	**0.54** (0.38–0.71 range)
Governance (G):	**0.30 (Least correlated)**
Social (S):	0.42 average
Environmental (E):	Highest of the three

*Governance is assumed to be the most objective, but raters define and weight board/executive structures most diversely.

3 SOURCES OF DIVERGENCE

1. Measurement (56%):	Same attribute, different data/indicators.
2. Scope (38%):	Different attributes included vs. omitted.
3. Weight (6%):	Same attributes weighted differently.
Rater Effect (Halo):	Overall impression bleeds into all categories.

4. MULTI-RATING ROUTER: WHICH SYSTEM TO LEAD WITH

Your Primary Use Case	Lead Rater	Why & Operational Action
Financial materiality & equity peer benchmarking	**MSCI ESG**	Evaluates risk to bottom line relative to GICS sub-industry peers. Identify your specific Key Issues and outpace direct competitors.
Absolute, cross-industry risk profiling & debt	**SUSTAINALYTICS**	Outputs an unmanaged risk score comparable across any sector. Prioritize management programs on your highest-exposure Material ESG Issues (MEIs).
European institutional capital & investability screens	**ISS ESG**	Determines "Prime" status hurdle (often C+). Focus on the specific binary governance and social indicators required to clear Prime.
Environmental transparency & climate accountability	**CDP**	Gold standard for carbon, water, and forests. Secure third-party verification for Scope 1 & 2 emissions to clear Essential Criteria gates.
Supply-chain diligence & enterprise procurement	**ECOVADIS**	Standard vetting platform for RFP procurement. Eliminate sub-30 theme bottlenecks first, and provide formal P-A-R documentation.

5. COMMERCIAL REAL ESTATE (CRE) & FACILITY OPERATOR INTERPRETATION

OPERATOR PERSPECTIVE: EVIDENCE OVER LETTER CHASE

Lenders, institutional landlords, and anchor tenants increasingly demand operational evidence (Energy Use Intensity / EUI, local building filings, verified utility data, physical climate hazard notes, and business continuity tests) rather than letter-grade chasing. Use ratings to diagnose data gaps; use verified operational evidence to close them.

Interpreting a 13.5 Sustainalytics Score

13.5 falls squarely in **Low Risk** (0–9.99 negligible, 10–19.99 low, 20–29.99 medium, 30–39.99 high, 40+ severe).

It is neither a trophy nor an emergency. Ask which specific MEIs drive the remaining 13.5 points (e.g. tenant energy vs. vendor labor).

Quarterly Action if Ratings Disagree

1. Map which counterparties actually rely on which score.
2. Maintain a shared evidence pack (energy, GHG method, vendor checks) linked to ISSB/GRI headings.
3. Treat disclosure as a year-round asset, not an annual questionnaire sprint.