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Dear Ratings Agency Leaders:

Fitch Ratings, Moody's Investors Service, and S&P Global Ratings (the "Ratings Agencies") have engaged in various downgrades of fossil-fuel companies or sectors (the "Downgrades")¹ based on highly speculative ESG² predictions and goals. The Downgrades materially contravened the Ratings Agencies' stated methodologies and are consistent with undisclosed material conflicts of interest, including the fact that (1) all three agencies have pledged to a United Nations-backed group that they will "incorporat[e] ESG into credit ratings and analysis in a systematic ... way,"³ and (2) Moody's and S&P pledged to help "achieve" net zero.⁴ The Ratings Agencies have used the same flawed methodologies to downgrade, or to threaten to downgrade, states and municipalities with fossil-fuel production revenues. The Ratings Agencies'

¹ See, e.g., <https://www.investmentexecutive.com/news/research-and-markets/climate-driven-downgrade-risks-rise-fitch/> (Fitch); <https://www.ft.com/content/45d721ee-1036-11ea-a7e6-62bf4f9e548a> (Moody's); <https://www.spglobal.com/ratings/en/regulatory/article/210125-the-change-to-the-industry-risk-assessment-for-exploration-production-companies-and-what-it-means-for-issuer-s11808862> (S&P) (article available for purchase)

² This memo uses the term "ESG" because the Ratings Agencies commonly use that terminology, but the issues discussed in this memo relate to predictions and goals regarding global emissions reduction targets, such as the goal of reaching net zero

³ <https://web.archive.org/web/20200417024717/https://www.unpri.org/credit-ratings/statement-on-esg-in-credit-ratings/77.article>; see <https://www.unpri.org/supporters>

⁴ <https://public.unpri.org/net-zero-financial-service-providers-alliance/commitment>; see <https://ir.moody.com/press-releases/news-details/2021/Moodys-Announces-Participation-in-New-GFANZ-Alliance-Commits-to-Align-Products-and-Services-to-Achieve-Net-Zero-Greenhouse-Gas-Emissions-by-2050/default.aspx>; <https://press.spglobal.com/2021-09-21-S-P-Global-joins-the-Net-Zero-Financial-Services-Provider-Alliance.-part-of-the-Glasgow-Financial-Alliance-for-Net-Zero>

actions in creating and maintaining the Downgrades implicate federal laws related to their obligations as SEC-registered ratings organizations to follow stated methodologies and avoid conflicts, and also implicate state consumer protection laws that prohibit misrepresentations and omissions. These failures ripple throughout the economy, reducing fossil-fuel production and contributing to the current high gas prices facing consumers.⁵

The Downgrades materially contravene the Ratings Agencies' stated methodologies in multiple ways. **First**, the Ratings Agencies claim they will update ratings as new information affects creditworthiness, yet they largely have not reversed the Downgrades after highly speculative ESG predictions proved to be wrong. The Ratings Agencies' incorrect predictions include:⁶ (a) stricter policy and regulations by governments, but governments have moved away from or not enacted net-zero policies;⁷ (b) an accelerating "peak hydrocarbon" date leading to "stranded assets," but the IEA now says oil and gas demand will continue to rise through 2050 and coal will remain the leading source of electricity through 2040;⁸ (c) renewable energy taking fossil-fuel market share, but governments are reducing subsidies⁹ and automakers have written off over \$70 billion in electric vehicle investments;¹⁰ and (d) increased ESG investment mandates, but net-zero alliances have collapsed,¹¹ ESG funds are experiencing net outflows,¹² and the traditional energy sector is outperforming the broader market by the biggest margin in history.¹³ **Second**, S&P claims to apply ESG only through sector-specific criteria,¹⁴ but S&P used ESG factors to create and maintain the Downgrades even though those ESG factors are not listed in its sector-specific criteria for oil and gas or for mining.¹⁵ **Third**, the Ratings Agencies made the Downgrades based on highly speculative ESG predictions, yet claim to incorporate those factors only if they have sufficient visibility and certainty.¹⁶ **Fourth**, the Ratings Agencies' ESG considerations also inflated credit ratings for pro-ESG actions, yet those actions have harmed investors. **Fifth**, the Ratings Agencies did not establish and enforce effective internal controls to protect against these

⁵ See, e.g., <https://www.iea.org/reports/the-implications-of-oil-and-gas-field-decline-rates> (PDF p. 1) (even a "relatively small drop in upstream investment can mean the difference between oil and gas supply growth and static production")

⁶ <https://www.spglobal.com/ratings/en/regulatory/article/210125-the-change-to-the-industry-risk-assessment-for-exploration-production-companies-and-what-it-means-for-issuer-s11808862> (article available for purchase)

⁷ See, e.g., <https://www.govinfo.gov/content/pkg/FR-2026-02-18/pdf/2026-03157.pdf> (U.S. government rescinding endangerment finding and associated emissions standards)

⁸ <https://www.iea.org/reports/world-energy-outlook-2025> (PDF p. 141, 151)

⁹ See, e.g., <https://www.whitehouse.gov/fact-sheets/2025/07/fact-sheet-president-donald-j-trump-ends-market-distorting-subsidies-for-unreliable-foreign-controlled-energy-sources>

¹⁰ <https://money.usnews.com/investing/news/articles/2026-02-06/explainer-global-carmakers-book-55-billion-hit-from-ev-rollback>

¹¹ See, e.g., <https://www.ft.com/content/841fb042-4f47-4da6-834e-6afe0c79d5c6>;

<https://www.esgdive.com/news/net-zero-insurance-alliance-disbands-rebrands-forum-insurance-transition-net-zero/714598/>

¹² <https://www.morningstar.com/sustainable-investing/esg-funds-2025-closes-with-continued-outflows-amid-persistent-headwinds>

¹³ <https://www.bloomberg.com/news/articles/2026-03-31/energy-stocks-set-to-beat-broader-market-by-biggest-margin-ever>; see <https://www.spglobal.com/spdji/en/indices/equity/sp-500-energy-sector/#overview>

¹⁴ <https://www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/12085396>

¹⁵ <https://www.spglobal.com/ratings/en/regulatory/article/-/view/type/PDF/id/3448885> (p. 137–44)

¹⁶ See https://your.fitch.group/rs/732-CKH-767/images/climate-vulnerability-in-corporate-ratings-discussion-paper_Fitch_10225313.pdf (p. 5); <https://ratings.moodys.com/rmc-documents/455705> (p. 2–3); <https://www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/12085396/>

material contraventions of their methodologies. Instead, their policies allow wide-ranging discretion, as evidenced by the arbitrary nature of the Downgrades and by ESG ratings that rank the CCP-owned China Petroleum ahead of U.S. oil and gas companies,¹⁷ despite the CCP’s dismal human-rights record.¹⁸

The Ratings Agencies’ methodological failures are consistent with undisclosed material conflicts of interest. The Ratings Agencies all committed to a UN-backed ESG group, Principles for Responsible Investment (“UN PRI”), that they would “incorporat[e] ESG into credit ratings and analysis in a systematic and transparent way.”¹⁹ Moody’s and S&P also committed to “accelerate” and “achieve” net zero when they joined the Net Zero Financial Service Providers Alliance (“NZFSPA”),²⁰ a group that state attorneys general noted potentially violated antitrust laws.²¹ Because net zero requires fossil-fuel consumption to be slashed by over 70% between 2022 and 2050,²² Moody’s and S&P were pledging to use their ratings to increase the cost of capital for fossil-fuel companies and decrease investment in those companies. Both of those effects would reduce fossil-fuel production.²³ In fact, Moody’s stated when it joined the NZFSPA that “Moody’s aims to accelerate the flow of capital to support the transition to net-zero by providing financial institutions and other decision-makers with net-zero-aligned data, products, and services ...”²⁴ Further, the Ratings Agencies’ incorporation of ESG into their credit ratings artificially increases demand for the agencies’ suite of ESG-related services. Companies purchasing these products can “enhance” or “elevate” their sustainability metrics,²⁵ and by extension, their credit ratings. Other than one limited disclosure by Fitch, the Ratings Agencies have not disclosed any of these ESG-related conflicts of interest, as required by the Securities Exchange Act of 1934 (“Exchange Act”) and associated SEC rules.

¹⁷ <https://www.spglobal.com/sustainable1/en/scores/results?cid=5576887>; <https://www.spglobal.com/sustainable1/en/scores/results?cid=4004170>; <https://www.spglobal.com/sustainable1/en/scores/results?cid=3007562>; <https://www.spglobal.com/sustainable1/en/scores/results?cid=4011157>; <https://www.fitchratings.com/entity/valero-energy-corporation-80090098>; <https://www.fitchratings.com/entity/china-petroleum-chemical-corporation-sinopec-80362354>; see <https://www.fitchratings.com/research/corporate-finance/china-national-petroleum-corporation-29-08-2023> (noting that China Petroleum is “wholly owned” by the Chinese government)

¹⁸ See, e.g., <https://usun.usmission.gov/joint-statement-on-the-human-rights-situation-in-china/>

¹⁹ <https://web.archive.org/web/20200417024717/https://www.unpri.org/credit-ratings/statement-on-esg-in-credit-ratings/77.article>

²⁰ <https://public.unpri.org/net-zero-financial-service-providers-alliance/commitment> (emphasis added); see <https://ir.moody.com/press-releases/news-details/2021/Moodys-Announces-Participation-in-New-GFANZ-Alliance-Commits-to-Align-Products-and-Services-to-Achieve-Net-Zero-Greenhouse-Gas-Emissions-by-2050/default.aspx>; <https://press.spglobal.com/2021-09-21-S-P-Global-joins-the-Net-Zero-Financial-Services-Provider-Alliance,-part-of-the-Glasgow-Financial-Alliance-for-Net-Zero>

²¹ <https://www.tn.gov/content/dam/tn/attorneygeneral/documents/pr/2023/pr23-37-letter.pdf>

²² <https://www.iea.org/reports/net-zero-roadmap-a-global-pathway-to-keep-the-1.5-c-goal-in-reach> (PDF p. 195) (oil, gas, and coal’s combined share of total energy consumption moves from 66% in 2022 to 18% by 2050)

²³ See, e.g., <https://oilprice.com/Energy/Crude-Oil/Fossil-Fuel-Financing-Under-Pressure-As-Wall-Street-Caves-To-ESG-Demands.html> (oil and gas companies reporting difficulty obtaining capital in 2022 survey); <https://www.iea.org/reports/the-implications-of-oil-and-gas-field-decline-rates> (PDF p. 1)

²⁴ <https://ir.moody.com/press-releases/news-details/2021/Moodys-Announces-Participation-in-New-GFANZ-Alliance-Commits-to-Align-Products-and-Services-to-Achieve-Net-Zero-Greenhouse-Gas-Emissions-by-2050/default.aspx>

²⁵ See, e.g., <https://www.spglobal.com/esg/s1/products/esg-corporate-governance-mergers-acquisitions-services.html> (offering “[s]trategic ESG advisory services to support companies improving their ESG profile”)

The Ratings Agencies’ material contraventions of their methodologies and conflicts of interest also have harmed states. In addition to issuing the Downgrades, the Ratings Agencies have also downgraded, weighed down, or warned that in the future they could downgrade, the bond ratings or credit outlooks of several fossil-fuel-producing states and municipalities (the “State Downgrades”).²⁶ For example, based on the same flawed “energy transition” and “increasing regulations” ESG predictions, S&P claimed that fossil-fuel-producing states’ economies were only improving “for now,” and projected that those states would face a more “prolonged economic recovery,” lagging behind other states.²⁷ The Ratings Agencies continue to use ESG factors to weigh down ratings for fossil-fuel-producing states and municipalities, even after the Ratings Agencies’ ESG-driven predictions have proven to be incorrect. These methodological departures and conflicts of interest harm state economies, tax revenues, and investments.

The Ratings Agencies’ misstatements and omissions regarding their objectivity, methodologies, and conflicts implicate state unfair and deceptive acts and practices (“UDAP”) laws. States and the U.S. Department of Justice previously sued S&P Financial Services and Moody’s for misrepresenting the independence and objectivity of ratings of residential mortgage-backed securities, resulting in a combined settlement of over \$2 billion.²⁸ Here, the Ratings Agencies similarly misrepresent the independence and objectivity of their credit ratings, while methodology departures and undisclosed conflicts of interest shape those ratings. The Ratings Agencies have a documented pattern of subordinating analytical integrity to institutional pressures—and paying massive penalties when caught. In the S&P settlement, the DOJ found that company executives complained that the company declined to downgrade underperforming assets because it was worried that doing so would hurt the company’s business. Moody’s acknowledged it deviated from published methodologies without disclosure—conduct directly parallel to the current concern about undisclosed ESG methodology changes. The SEC separately fined S&P \$77 million in 2015 for CMBS ratings fraud—including a one-year activity suspension—and fined Moody’s \$16.25 million in 2018 for internal controls failures affecting over 650 ratings. The pattern then was inflating ratings for revenue; the pattern now is deflating energy ratings for ESG credibility. The institutional dynamic is identical: external pressure (then from investment bank clients, now from climate-activist coalitions and ESG business lines) distorts the analytical process, and the Ratings Agencies’ internal controls fail to prevent it.

I. SEC Authority and Required Reports

The SEC can investigate when a Nationally Recognized Statistical Rating Organization (“NRSRO”) “issues credit ratings in material contravention of those procedures relating to such nationally recognized statistical rating organization,” and procedures may be described in an

²⁶ See, e.g., <https://www.alacrastore.com/s-and-p-credit-research/a-2629068> (article available for purchase). The four states were Alaska, New Mexico, Pennsylvania, and Wyoming. See *id.* (listing the first three states as “Negative”); <https://www.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/2465821> (downgrading Wyoming and stating that “we consider Wyoming to have higher environmental and social risks compared with those of other states”)

²⁷ <https://www.alacrastore.com/s-and-p-credit-research/a-2629068> (article available for purchase)

²⁸ <https://www.justice.gov/archives/opa/pr/justice-department-and-state-partners-secure-1375-billion-settlement-sp-defrauding-investors>; <https://www.justice.gov/archives/opa/pr/justice-department-and-state-partners-secure-nearly-864-million-settlement-moody-s-arising>

NRSRO's application or in SEC-required reports.²⁹ Statements about credit ratings methodology also can be incorporated by reference into an SEC-required report.³⁰

If the SEC finds a violation and provides notice and a hearing, then under certain circumstances it can limit an NRSRO's activities, suspend the NRSRO's registration for up to 12 months, or revoke the registration completely.³¹ The SEC may take such action if the action (1) is necessary for the protection of investors and the public interest, and (2) falls under certain categories, including willfully making a false statement of material fact in a report.³²

The Ratings Agencies cannot shield their ESG-driven methodologies behind the First Amendment. Credit ratings issued by NRSROs are commercial speech receiving reduced constitutional protection, not matters of public concern entitled to full First Amendment scrutiny. In *Abu Dhabi Commercial Bank v. Morgan Stanley*, the Southern District of New York rejected S&P's and Moody's First Amendment defense, holding that ratings disseminated to select investors rather than the general public are not afforded the same protection as journalistic commentary. The Supreme Court's framework in *Dun & Bradstreet, Inc. v. Greenmoss Builders* confirms that credit reports relating to purely economic interests occupy a "subordinate position" in First Amendment analysis. Moreover, Congress in the Dodd-Frank Act repealed the expert-liability exemption for NRSROs (Section 939G) and lowered the pleading standard for private actions (Section 933), deliberately undercutting the speech-based defense. Entities that voluntarily register as NRSROs to obtain regulatory privileges embedded in hundreds of federal and state statutes cannot simultaneously claim immunity from accountability for how they exercise that quasi-governmental authority.

II. The Ratings Agencies' Maintenance of the Downgrades Illustrates Ongoing Material Contraventions of the Agencies' Stated Methodologies

The SEC mandates that every NRSRO follow that organization's stated methodologies, but the Ratings Agencies have not done so. The Ratings Agencies' refusal to reverse the Downgrades appears to be in material contravention of their stated methodologies, in four primary ways. **First**, the Ratings Agencies claim they will update ratings as new information emerges, but they have failed to update ratings when core ESG predictions have not materialized. **Second**, S&P states that it will incorporate ESG factors through sector-specific methodologies, but S&P does not list ESG factors for the oil-and-gas or mining sectors, even though S&P used such factors for downgrades. **Third**, the Ratings Agencies purport to incorporate long-term ESG factors only if they have a

²⁹ 15 U.S.C. § 78o-7(c)(1). The SEC's authority does not allow it to dictate the substance or methodologies of rating opinions. *Id.* § 78o-7(c)(2)

³⁰ For example, in the SEC-required Form NRSRO Exhibit 2, S&P defines its "Methodologies" as its "Criteria," and notes that "Criteria used in the determination of a Credit Rating are disclosed to the public on the Free Website in a timely manner"

https://www.sec.gov/Archives/edgar/data/1650548/000165054824000007/SPGR_Ex2.Dec2024.pdf (p. 36). S&P defines "Free Website" to be "S&P Global Ratings websites that are provided with free access for a variety of regions and languages for regulatory disclosures including its public Credit Ratings and related information." *Id.* (p. 14). This would appear to include SPGlobal.com, which details S&P's Criteria.

<https://www.spglobal.com/ratings/en/regulatory/ratings-criteria>

³¹ 15 U.S.C. § 78o-7(d)

³² 15 U.S.C. § 78o(b)(4)(A)

sufficiently clear view of the future, yet the Downgrades largely rely on presuming a decades-long climate transition that is not occurring. **Fourth**, the Ratings Agencies' ESG considerations also inflated ratings for pro-ESG actions, yet those actions have harmed investors. **Fifth**, the Ratings Agencies failed to establish effective internal controls related to their analysts' use of ESG factors, especially in light of those agencies' ESG goals.

a. Failure to Update Ratings When Core Assumptions Have Been Proven Wrong

The Ratings Agencies contravene their stated methodologies by maintaining the Downgrades in the face of contrary, credit-relevant evidence that contradicts the Downgrades' core assumptions. The Ratings Agencies claim that they will update their ratings as new information becomes available.³³ Four core ESG predictions that the Ratings Agencies have used to justify the Downgrades have been disproven: (1) governments are not imposing strict ESG policies and regulations, (2) fossil-fuel demand is growing, not shrinking, and fossil-fuel investments are not becoming "stranded assets," (3) renewable energy is not encroaching on the market share of fossil fuels, because society is not transitioning to renewable energy, and (4) the "growing adoption of ESG investment mandates" has reversed. Yet the Ratings Agencies largely have not reversed the Downgrades.

1. Governments Are Not Enacting Strict ESG Policies and Regulations

The Ratings Agencies have issued downgrades based on a belief that governments would enact strict ESG policies. Fitch has assigned high "climate vulnerability scores" to fossil-fuel companies, including a 90 out of 100 to coal-fired electricity generation in the U.S., representing "high default risk."³⁴ Those scores were based in large part on what Fitch called a "plausible policy scenario of rapid low-carbon transition from the mid-2020s."³⁵ Moody's says that "future regulatory requirements" are "the basis for our expectations of future financial metrics,"³⁶ and it downgraded Exxon in 2020 based on the "emerging threat" of government policies relating to climate change.³⁷ Similarly, S&P downgraded the oil and gas sector in anticipation of governments

³³ See https://assets.ctfassets.net/03fbs7oah13w/5VIqMdtgXSCGkzpUqkeRPC/d7c0bb4e2d794e50f159f2b685e2f442/Exhibit_2.pdf (p. 5) ("Fitch's credit ratings are typically monitored on an ongoing basis and the review process is a continuous one.");

https://www.moodys.com/uploadpage/Mco%20Documents/SP11557_MIS%20Code%20of%20Professional%20Conduct.pdf (p. 9–10) (Moody's considers all relevant information and updates ratings at least every 12 months); <https://www.spglobal.com/ratings/en/credit-ratings/about/understanding-credit-ratings> (under "About Our Credit Ratings": S&P ratings "evolve to reflect changes to market conditions or issuer-specific credit factors")

³⁴ https://your.fitch.group/rs/732-CKH-767/images/climate-vulnerability-in-corporate-ratings-discussion-paper_Fitch_10225313.pdf (p. 5–6)

³⁵ https://your.fitch.group/rs/732-CKH-767/images/climate-vulnerability-in-corporate-ratings-discussion-paper_Fitch_10225313.pdf (p. 5–6)

³⁶ <https://ratings.moodys.com/rmc-documents/458955> (p. 13)

³⁷ Moody's Investors Service Credit Opinion, Exxon Mobil Corporation, Apr. 10, 2020, at 2; see <https://ratings.moodys.com/rmc-documents/455705> (p. 6) ("For example, for an independent oil and gas exploration and production company, we assess existing carbon regulations and seek to understand how the trajectory of expected future regulations is likely to influence demand and pricing for hydrocarbons.")

setting “stricter policies and regulations.”³⁸ It also warned that \$68 billion in coal and gas plant investments could be at risk due to “ambitious decarbonization targets” in the U.S.³⁹

The governments most relevant to publicly traded fossil-fuel companies are not setting stricter policies and regulations on climate change, and the United States has reversed course on its fossil-fuel policies. Only 18% of countries have net-zero goals “in law,”⁴⁰ and the world’s three highest-emitting countries are ranked as either “highly insufficient” or “critically insufficient” by the Climate Action Tracker.⁴¹ China has recently constructed more coal plants than the rest of the world combined,⁴² and India has “record-high coal production” and is pushing for more.⁴³ The United States withdrew from the Paris Agreement⁴⁴ and rescinded the Environmental Protection Agency’s long-standing endangerment finding, along with motor vehicle emissions standards based on that finding.⁴⁵ The United States also has eased restrictions on oil and gas companies⁴⁶ and on natural gas and coal electricity generation.⁴⁷ The United States also has issued stricter policies and regulations related to wind and solar, such as cutting projects⁴⁸ and eliminating subsidies.⁴⁹ Germany’s own climate advisors admit that Germany’s policies will not meet climate targets,⁵⁰ and France is “slashing” its solar and wind targets.⁵¹

These changes are bi-partisan and extend to blue states. New York’s governor announced that the state would move away from its “costly,” “unattainable,” and “impossible” climate targets, and admitted that maintaining those targets would create “new and additional crushing costs.”⁵² California’s governor recently signed a bill fast-tracking oil drilling in the state,⁵³ has called for “pragmatism,” and has admitted that “we are all the beneficiaries of oil and gas.”⁵⁴ Fifteen

³⁸ <https://www.spglobal.com/ratings/en/regulatory/article/210125-the-change-to-the-industry-risk-assessment-for-exploration-production-companies-and-what-it-means-for-issuer-s11808862> (article available for purchase)

³⁹ https://cdn.roxhillmedia.com/production/email/attachment/880001_890000/6c9c2b7774f900a0df3eaf4a0a4fb8c42519f749.pdf

⁴⁰ <https://zerotracker.net/>

⁴¹ <https://climateactiontracker.org/countries/china/>; <https://climateactiontracker.org/countries/usa/>; <https://climateactiontracker.org/countries/india/>; https://edgar.jrc.ec.europa.eu/report_2025 (showing China, the United States, and India as the top three emitters)

⁴² <https://climateactiontracker.org/countries/china/>

⁴³ <https://climateactiontracker.org/countries/india/> (“the government is pushing for increased domestic coal production.”)

⁴⁴ <https://www.cfr.org/articles/united-states-exits-paris-agreement>

⁴⁵ <https://www.govinfo.gov/content/pkg/FR-2026-02-18/pdf/2026-03157.pdf>

⁴⁶ See, e.g., <https://www.energy.gov/articles/fact-sheet-delivering-us-oil-and-natural-gas-production>

⁴⁷ https://www.epa.gov/system/files/documents/2026-01/for-website_preamble-clean-san11542-combustion-turbines-frm-20260108-co-12866.pdf; <https://www.nbcnews.com/science/environment/epa-eases-limits-coal-plant-emissions-mercury-toxins-trump-rcna259955>

⁴⁸ <https://www.doi.gov/pressreleases/trump-administration-protects-us-national-security-pausing-offshore-wind-leases>

⁴⁹ <https://www.whitehouse.gov/fact-sheets/2025/07/fact-sheet-president-donald-j-trump-ends-market-distorting-subsidies-for-unreliable-foreign-controlled-energy-sources>

⁵⁰ See <https://www.cleanenergywire.org/news/german-government-advisors-slam-new-climate-package-insufficient>

⁵¹ See <http://cleanenergywire.org/factsheets/clew-guide-france-moves-action-new-climate-plan-green-industry-makeover>

⁵² <https://empirereportnewyork.com/climate-action-and-affordability-can-and-must-go-hand-in-hand/>

⁵³ <https://bakersfieldnow.com/news/local/governor-newsom-signs-senate-bill-237-to-fast-track-oil-permitting-in-kern-county-oil-market-air-pollution-energy-industry-wells-state-senator-shannon-grove->

⁵⁴ <https://www.kpbs.org/news/environment/2025/08/18/gavin-newsom-warms-to-big-oil-in-climate-reversal>

Democrats in California’s legislature have warned that the state’s “cap and invest” program could “destabiliz[e] our energy markets” and harm consumers.⁵⁵ And Illinois legislators recently killed a climate superfund bill sponsored by the state’s house majority leader without even giving the bill a hearing.⁵⁶

The argument for governments to address the financial impact of climate change has also eroded. Domestic and foreign government entities previously had justified costly regulations based on a high-profile scientific article asserting massive long-term economic damage from climate change.⁵⁷ That article recently was withdrawn due to egregious errors.⁵⁸

Even when the Ratings Agencies have admitted that governments are not adopting net zero, they largely have not adjusted their ratings accordingly, as required by their methodologies. Fitch recently acknowledged “intervening policy developments,” including “more coal-friendly policies” in the U.S., but nonetheless insisted that it “continues to view long-term transition risks as material for these sectors despite lower signals.”⁵⁹ S&P has maintained its downgrades despite publicly acknowledging the “growing gap between policy pledges and the tangible effects of regulations, as well as companies’ so far limited spending on investments to align with a net-zero world.”⁶⁰ S&P also has proclaimed that it will not incorporate ESG factors based on “potential future public policy decisions”⁶¹—yet the rationale for some of S&P’s downgrades did exactly that, expressing concern that “sovereign and local governments globally have been enacting stricter policies and regulations.”⁶²

2. *Fossil-Fuel Demand Is Growing, Not Shrinking, and Fossil-Fuel Assets Are Not Becoming “Stranded Assets”*

The Ratings Agencies each have incorrectly predicted that fossil-fuel demand would shrink. Fitch stated that coal-based utilities and oil and gas were the highest-risk economic sectors, due to “lower demand forecasts.”⁶³ Its recent downgrades for the oil and gas sector were based in part on “reduced global oil demand growth.”⁶⁴ Moody’s oil and gas methodologies state that oil and gas companies “face increasing environmental regulation” and “carbon transition risks,”⁶⁵ and

⁵⁵ <https://www.kcra.com/article/california-lawmakers-urge-reconsideration-of-cap-and-invest-program-update/70688221>

⁵⁶ <https://www.eenews.net/articles/illinois-balks-at-climate-superfund-bill/>

⁵⁷ See <https://www.wsj.com/science/environment/climate-change-study-retraction-nature-454cd61b>

⁵⁸ See <https://www.wsj.com/science/environment/climate-change-study-retraction-nature-454cd61b>

⁵⁹ <https://www.fitchratings.com/research/infrastructure-project-finance/fitch-ratings-updates-climate-vulnerability-signals-for-corporates-transition-risk-08-01-2026>

⁶⁰ <https://www.esgtoday.com/guest-post-why-climate-risks-are-changing-so-few-corporate-ratings/>

⁶¹ <https://www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/12085396>

⁶² <https://www.spglobal.com/ratings/en/regulatory/article/210125-the-change-to-the-industry-risk-assessment-for-exploration-production-companies-and-what-it-means-for-issuer-s11808862> (article available for purchase)

⁶³ <https://www.investmentexecutive.com/news/research-and-markets/climate-driven-downgrade-risks-rise-fitch/>

⁶⁴ <https://www.fitchratings.com/research/corporate-finance/fitch-ratings-changes-global-oil-gas-sector-outlook-to-deteriorating-11-06-2025>

⁶⁵ <https://ratings.moody.com/rmc-documents/458955> (p. 13)

it downgraded an oil and gas company for failing to “adjust[] to a lower-carbon economy.”⁶⁶ S&P has made downgrades based on a supposed risk of “stranded assets” from a “peak hydrocarbon demand” date that will “continue to accelerate,”⁶⁷ but that date has been pushed back by decades. In one particularly egregious exaggeration, S&P made a French Revolution analogy in 2019 and predicted that “polluting, inefficient, uncontrolled” coal power generation units would soon be subject to the metaphorical guillotine.⁶⁸

These predictions were incorrect, and the IEA now projects continued growth for oil and gas, and a continued role for coal.⁶⁹ In 2023, the IEA projected that peak oil and gas demand would occur before 2030 even under its then-most conservative scenario, the “stated policies” scenario, which was based on “current policy settings by governments worldwide” (including stated policies not enacted into law).⁷⁰ The IEA also declared that there was “a peak in global oil demand in sight before the end of this decade.”⁷¹ Last year, the IEA admitted that energy security had taken “cent[er] stage” and that the world was “thirsty for energy,” with oil, natural gas, and coal consumption at record highs.⁷² The IEA then provided an actual enacted policies scenario (the “current policies” scenario) and admitted that in that scenario, “[o]il and natural gas demand [will] increase by 16% to 2035 and continue to rise through to 2050,” with prices rising as well.⁷³ The IEA’s coal peak has also been pushed back, from “the next few years” in 2023’s stated-policies scenario⁷⁴ to “before 2030” under the 2025 current-policies scenario.⁷⁵

The IEA’s report also makes clear that new fossil-fuel projects are not potential “stranded assets”—they are essential components to meet growing market demand. Under the IEA’s current-policies scenario, “25 million barrels per day (mb/d) of **new** oil supply projects are needed to 2035 ... to keep markets in balance, and oil prices rise from today’s levels to incentiviz[e] the additional upstream projects.”⁷⁶ Similarly, meeting natural gas demand “requires an acceleration in investment in a wide range of supply sources” as price and demand continue to rise.⁷⁷ The IEA also projects that coal will “remain[] the largest source of electricity until 2040.”⁷⁸

⁶⁶ <https://www.ft.com/content/45d721ee-1036-11ea-a7e6-62bf4f9e548a?syn-25a6b1a6=1>; see <https://www.moodys.com/entity/273500/ratings/view-by-class> (showing that Moody’s downgraded Exxon shortly after issuing this warning)

⁶⁷ <https://www.spglobal.com/ratings/en/regulatory/article/210125-the-change-to-the-industry-risk-assessment-for-exploration-production-companies-and-what-it-means-for-issuer-s11808862> (article available for purchase)

⁶⁸ <https://www.alacrastore.com/s-and-p-credit-research/a-2335581> (article available for purchase)

⁶⁹ <https://www.iea.org/reports/world-energy-outlook-2025> (PDF p. 151)

⁷⁰ See <https://www.iea.org/reports/world-energy-outlook-2023> (PDF p. 17, 26). The extent to which this scenario factored in future policies was unclear, and the IEA sometimes presented its stated policy outlook as based on “today’s policy settings.” See <https://www.iea.org/news/the-energy-world-is-set-to-change-significantly-by-2030-based-on-todays-policy-settings-alone>

⁷¹ <https://www.iea.org/news/growth-in-global-oil-demand-is-set-to-slow-significantly-by-2028>

⁷² <https://www.iea.org/reports/world-energy-outlook-2025> (PDF p. 17)

⁷³ <https://www.iea.org/reports/world-energy-outlook-2025> (PDF p. 151)

⁷⁴ <https://www.iea.org/reports/world-energy-outlook-2023> (PDF p. 27)

⁷⁵ <https://www.iea.org/reports/world-energy-outlook-2025> (PDF p. 141)

⁷⁶ <https://www.iea.org/reports/world-energy-outlook-2025> (PDF p. 22) (emphasis added)

⁷⁷ <https://www.iea.org/reports/world-energy-outlook-2025> (PDF p. 162–63)

⁷⁸ <https://www.iea.org/reports/world-energy-outlook-2025> (PDF p. 141)

3. “Market Share Encroachment of Renewable Energy” Is Not Occurring

The Ratings Agencies incorrectly predicted that society would rapidly move to renewable energy. Fitch warned oil and gas producers that they faced credit downgrades if they did not adapt to a low-carbon future.⁷⁹ Moody’s downgraded an oil and gas company based on “societal efforts to reduce carbon emissions and transition energy supply to low carbon sources.”⁸⁰ Moody’s also has openly worried that “consumer preferences” could harm oil and gas companies.⁸¹ S&P issued downgrades based on the predictions that “market share encroachment of renewable energy” and “increasing adoption and transition of renewable energy alternatives” would harm oil and gas companies.⁸²

Trends suggesting a movement towards renewable energy have slowed or reversed. Corporate clean energy purchasing declined in 2025,⁸³ despite global energy demand continuing to grow.⁸⁴ BP recently wrote down about \$5 billion in renewable energy assets.⁸⁵ Minimal demand for electric vehicles led to automakers losing about \$70 billion on EVs,⁸⁶ more than the entire market capitalization of Ford (\$47 billion) and GM (\$68 billion).⁸⁷ As Ford’s CEO put it, “the customer has spoken.”⁸⁸ Less than 8% of the light vehicles sold in the U.S. last year were electric,⁸⁹ and Hertz and Avis collectively lost well over a billion dollars due to decisions to add more EVs to their fleets.⁹⁰ Studies have found that although surveyed consumers profess to value sustainability, those supposed values typically do not translate to actual purchasing decisions when consumers would have to pay more for green products.⁹¹

Clean energy subsidies also are decreasing. The U.S. federal government has cut off many subsidies for “green energy.”⁹² Even in the European Union, which has goals ranked by activists

⁷⁹ <https://www.investmentnews.com/equities/oil-and-gas-firms-could-face-a-decade-of-credit-downgrades-fitch-says/245157>

⁸⁰ Moody’s Investors Service Credit Opinion, Exxon Mobil Corporation, Mar. 26, 2021, at 2

⁸¹ <https://ratings.moodys.com/rmc-documents/458955> (p. 13)

⁸² <https://www.spglobal.com/ratings/en/regulatory/article/210125-the-change-to-the-industry-risk-assessment-for-exploration-production-companies-and-what-it-means-for-issuer-s11808862> (article available for purchase)

⁸³ <https://finance.yahoo.com/news/corporate-clean-energy-buying-fell-114829143.html>

⁸⁴ <https://www.iea.org/news/global-electricity-demand-is-set-to-grow-strongly-to-2030-underscoring-need-for-investments-in-grids-and-flexibility>

⁸⁵ <https://finance.yahoo.com/news/does-bp-5-4-billion-141548712.html>

⁸⁶ <https://money.usnews.com/investing/news/articles/2026-02-06/explainer-global-carmakers-book-55-billion-hit-from-ev-rollback>

⁸⁷ See <https://finance.yahoo.com/quote/F/>; <https://finance.yahoo.com/quote/GM/>

⁸⁸ <https://www.businessinsider.com/ford-ceo-customer-spoken-ev-business-lost-billions-2026-2>

⁸⁹ <https://www.autoweek.com/news/a70360927/carmakers-50-billion-loss-on-evs/>

⁹⁰ <https://www.businessinsider.com/hertz-tesla-ev-gamble-loss-america-pain-points-2025-12;>
<https://www.autorentalnews.com/10255798/avis-budget-group-reports-near-1-billion-loss-tied-to-2025-ev-fleet-write-down>

⁹¹ <https://news.stanford.edu/stories/2025/05/study-sustainability-ecolabels-consumer-behavior;> see <https://www.reuters.com/business/retail-consumer/reuters-impact-shoppers-say-they-want-sustainable-goods-wont-pay-more-2023-09-07/>

⁹² <https://www.whitehouse.gov/fact-sheets/2025/07/fact-sheet-president-donald-j-trump-ends-market-distorting-subsidies-for-unreliable-foreign-controlled-energy-sources>

as “insufficient” (rather than “highly insufficient” or “critically insufficient”),⁹³ solar energy subsidies have been reduced.⁹⁴

Finally, even to the extent renewable energy has increased in usage, continuing fossil-fuel demand has driven increased profits for traditional energy companies. For instance, the IEA stated that “2022 was an extraordinarily profitable year for many fossil fuel companies, as they saw revenues soar on higher fuel prices.”⁹⁵ With energy demand continuing to surge, net profits for oil and gas companies have increased,⁹⁶ and as of the end of March 2026, the energy sector had outperformed the broader S&P 500 by the biggest margin in history.⁹⁷ Coal also has experienced a resurgence in recent years, with prices spiking to record highs in 2022 and still sitting at roughly double the price of coal at the beginning of 2020.⁹⁸

4. *The “Growing Adoption of ESG Investment Mandates” Has Reversed*

S&P’s downgrades incorrectly predicted that “the growing adoption of ESG investment mandates amongst global investors and financial institutions” would contribute to “peak hydrocarbon,”⁹⁹ but large asset managers have mostly abandoned those ESG investment mandates and net-zero alliances have collapsed or declined.

At the time of S&P’s downgrades, ESG investment mandates were nearing their peak. The world’s largest asset managers had joined the Net Zero Asset Managers (“NZAM”) initiative by the end of 2021.¹⁰⁰ But a year later, Vanguard dropped out, and BlackRock and State Street eventually followed suit.¹⁰¹ NZAM suspended operations and only recently “relaunched” with a narrowed commitment and smaller set of asset managers.¹⁰² Similarly, although America’s largest banks all joined the Net Zero Banking Association (“NZBA”), those banks all left the group around January 2025, and the group folded.¹⁰³ The Net-Zero Insurance Alliance (“NZIA”) aimed to restrict underwriting portfolios in line with net-zero goals, but disbanded after state attorneys general raised concerns and major insurers left the group.¹⁰⁴

⁹³ <https://climateactiontracker.org/countries/eu/>

⁹⁴ <https://www.reuters.com/sustainability/climate-energy/eu-solar-energy-rollout-slows-first-time-decade-subsidies-cut-2025-07-24/>

⁹⁵ <https://www.iea.org/reports/world-energy-investment-2023> (PDF p. 13)

⁹⁶ <https://www.deloitte.com/us/en/insights/industry/oil-and-gas/oil-and-gas-industry-outlook-2025.html>

⁹⁷ <https://www.bloomberg.com/news/articles/2026-03-31/energy-stocks-set-to-beat-broader-market-by-biggest-margin-ever>; see <https://www.spglobal.com/spdji/en/indices/equity/sp-500-energy-sector/#overview>

⁹⁸ <https://tradingeconomics.com/commodity/coal>

⁹⁹ <https://www.spglobal.com/ratings/en/regulatory/article/210125-the-change-to-the-industry-risk-assessment-for-exploration-production-companies-and-what-it-means-for-issuer-s11808862> (article available for purchase)

¹⁰⁰ <https://www.netzeroassetmanagers.org/the-net-zero-asset-managers-initiative-grows-to-87-investors-managing-37-trillion-with-the-worlds-three-largest-asset-managers-now-committing-to-net-zero-goal/>

¹⁰¹ See <https://www.esgtoday.com/state-streets-balancing-act-pulls-out-of-net-zero-investor-group-in-u-s-stays-in-europe/>; <https://www.reuters.com/business/sustainable-business/vanguard-quits-net-zero-climate-alliance-2022-12-07/>

¹⁰² <https://www.netzeroinvestor.net/news-and-views/doubling-down-nzam-relaunch-backed-by-250-managers-but-largest-us-firms-decline-to-join>. NZAM’s site clarifies that only State Street’s European entities have joined.

<https://www.netzeroassetmanagers.org/signatories/>

¹⁰³ <https://www.ft.com/content/841fb042-4f47-4da6-834e-6afe0c79d5c6>

¹⁰⁴ <https://www.esgdive.com/news/net-zero-insurance-alliance-disbands-rebrands-forum-insurance-transition-net-zero/714598/>; see <https://attorneygeneral.utah.gov/wp-content/uploads/2023/05/2023-05-15-NZIA-Letter.pdf>. The

Similarly, investor support for environmental proposals has fallen dramatically. For example, when S&P imposed broad oil-and-gas downgrades in 2021, environmental proposals received 49% median support from shareholders.¹⁰⁵ Last proxy season, environmental proposals only received 15% average support,¹⁰⁶ and no environmental proposals received majority support.¹⁰⁷

Investors also have moved away from ESG funds. Last year, global sustainable funds recorded \$84 billion in net outflows, even while \$1.7 trillion was added overall to the “global open-end fund and ETF universe.”¹⁰⁸ In the U.S., sustainable funds have recorded net outflows every quarter for over three years in a row.¹⁰⁹

b. Failure to Identify ESG Considerations as a Factor in Fossil-Fuel-Sector Rating Methodologies

S&P’s oil-and-gas and mining sector-specific methodologies fail to list ESG factors considered by S&P, in violation of SEC requirements to disclose core aspects of ratings methodology. S&P clearly relied on ESG criteria in issuing downgrades, but publicly claims to incorporate ESG considerations only “through the application of our sector-specific criteria.”¹¹⁰

The SEC previously sued an NRSRO for failing to disclose an important aspect of ratings methodology. Morningstar “failed to disclose what [it] elsewhere described as a ‘central feature’ of [its] methodology: that analysts could make discretionary, loan-level adjustments ... for ‘subjective reasons.’”¹¹¹ The SEC’s Office of Credit Ratings (“OCR”) also has warned that “in incorporating ESG factors into ratings determinations,” NRSROs risk “not adher[ing] to their methodologies or policies and procedures.”¹¹²

S&P purports to include ESG considerations only in its sector-specific methodologies,¹¹³ but it has used ESG considerations even when its sector-specific methodologies for oil-and-gas

NZIA was replaced by the “Forum for Insurance Transition to Net Zero,” with less ambitious goals and fewer insurers. See <https://www.esgdive.com/news/net-zero-insurance-alliance-disbands-rebrands-forum-insurance-transition-net-zero/714598/>; <https://www.unepfi.org/forum-for-insurance-transition-to-net-zero/fit-participants>

¹⁰⁵ <https://corpgov.law.harvard.edu/2024/11/18/u-s-shareholder-proposals-a-decade-in-motion/>

¹⁰⁶ <https://corpgov.law.harvard.edu/2025/10/07/esg-shareholder-resolutions-signal-failure/>

¹⁰⁷ <https://corpgov.law.harvard.edu/2025/08/30/shareholder-proposal-developments-during-the-2025-proxy-season>

¹⁰⁸ <https://www.morningstar.com/sustainable-investing/esg-funds-2025-closes-with-continued-outflows-amid-persistent-headwinds>

¹⁰⁹ <https://global.morningstar.com/en-nd/sustainable-investing/esg-funds-2025-closes-with-continued-outflows-amid-persistent-headwinds>

¹¹⁰ <https://www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/12085396>

¹¹¹ *U.S. Sec. & Exch. Comm’n v. Morningstar Credit Ratings, LLC*, 578 F. Supp. 3d 563, 568 (S.D.N.Y. 2022)

¹¹² <https://www.sec.gov/files/2022-ocr-staff-report.pdf> (p. 8)

¹¹³ <https://www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/12085396>

exploration and production and for mining do not mention ESG considerations such as transition risk at all.¹¹⁴ As discussed above, S&P has made downgrades based on ESG predictions.¹¹⁵

S&P's commitments also contradict its assertions that it only includes ESG considerations in its sector-specific methodologies. S&P (along with the other Ratings Agencies) promised to “incorporat[e] ESG into credit ratings and analysis in a systematic and transparent way,” as part of their ongoing commitment to the United Nations’ Principles for Responsible Investment (“UN PRI”).¹¹⁶ S&P (along with Moody’s) also pledged to the NZFSPA that it would align “*all relevant services and products* to achieve net zero greenhouse gas emissions by 2050 or sooner, scaling and mainstreaming Paris Agreement-alignment *into the core of our business.*”¹¹⁷ The NZFSPA’s core aspects have been incorporated into UN PRI,¹¹⁸ where S&P and the other Ratings Agencies are still members.¹¹⁹

c. Use of ESG Factors and Extended Time Horizons

The Downgrades’ reliance on ESG predictions contravene the Ratings Agencies’ stated methodologies, which state that ESG factors will be incorporated only when the agencies are sufficiently certain. None of the Ratings Agencies currently have a time horizon for ESG considerations,¹²⁰ even though Fitch and S&P previously limited consideration of ESG factors to certain horizons.¹²¹ But all three Ratings Agencies claim they will factor in the probability of ESG predictions actually occurring. Fitch claims it will give factors more weight based on “the level of certainty with which we can predict that these drivers will occur.”¹²² Moody’s claims that “we incorporate ESG considerations into ratings when we have visibility into those trends.”¹²³ S&P similarly claims that it only incorporates ESG factors that have “sufficient visibility and certainty” in a time period where S&P has a “sufficiently clear view of an entity’s potential financial

¹¹⁴ <https://www.spglobal.com/ratings/en/regulatory/article/-/view/type/PDF/id/3448885> (p. 133–44). S&P’s mining sector methodologies mention the possibility of “mining-specific environmental regulations” but do not characterize these as transition risks. *See id.* (p. 134)

¹¹⁵ <https://www.spglobal.com/ratings/en/regulatory/article/210125-the-change-to-the-industry-risk-assessment-for-exploration-production-companies-and-what-it-means-for-issuer-s11808862> (S&P) (article available for purchase)

¹¹⁶ <https://web.archive.org/web/20200417024717/https://www.unpri.org/credit-ratings/statement-on-esg-in-credit-ratings/77.article>; *see* <https://www.unpri.org/supporters>

¹¹⁷ <https://public.unpri.org/net-zero-financial-service-providers-alliance/commitment> (emphasis added); <https://press.spglobal.com/2021-09-21-S-P-Global-joins-the-Net-Zero-Financial-Services-Provider-Alliance,-part-of-the-Glasgow-Financial-Alliance-for-Net-Zero>; <https://ir.moody.com/press-releases/news-details/2021/Moodys-Announces-Participation-in-New-GFANZ-Alliance-Commits-to-Align-Products-and-Services-to-Achieve-Net-Zero-Greenhouse-Gas-Emissions-by-2050/default.aspx>

¹¹⁸ <https://public.unpri.org/news-and-events/nzfspace-reorganises-and-concludes-as-standalone-initiative/13583.article>

¹¹⁹ <https://www.unpri.org/supporters>

¹²⁰ *See* https://your.fitch.group/rs/732-CKH-767/images/climate-vulnerability-in-corporate-ratings-discussion-paper_Fitch_10225313.pdf (p. 4–6); <https://ratings.moody.com/rmc-documents/455705> (p. 2–3, 5); <https://www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/12085396/>

¹²¹ <https://www.fitchratings.com/research/corporate-finance/fitch-outlines-approach-to-capturing-esg-risk-in-credit-ratings-07-11-2017> (“We assess these factors as part of the overall credit analysis when we consider them to have a financial impact on the rating within the rating horizon.”); https://www.brookings.edu/wp-content/uploads/2018/01/epdf_spg-esg-risks-into-ratings-analysis_final.pdf (p. 2) (using a five-year horizon)

¹²² https://your.fitch.group/rs/732-CKH-767/images/climate-vulnerability-in-corporate-ratings-discussion-paper_Fitch_10225313.pdf (p. 5)

¹²³ <https://ratings.moody.com/rmc-documents/455705> (p. 2–3)

performance.”¹²⁴ However, when the world’s leading energy agency moves its conservative projection on a global hydrocarbon peak by over *two decades* in just a two-year period, the Ratings Agencies cannot possibly have sufficient visibility and certainty of the long-term ESG predictions used to create the Downgrades.

d. Use of ESG Factors to Inflate Renewable-Energy Ratings

In addition to downgrading companies for their investments in revenue-producing fossil fuels, the Ratings Agencies have also upgraded companies for those companies’ investments in low-carbon alternatives, many of which now have produced a loss. For example, when upgrading BP’s rating in 2023, Fitch praised BP’s “transition investments” in wind and solar, which were intended to support “net zero through ... alternative, lower carbon energy.”¹²⁵ Yet, just a few years later, BP announced massive write-downs—up to \$5 billion—primarily related to the company’s “transition businesses” that include “low carbon energy” such as wind and solar.¹²⁶ Similarly, in 2024, even while acknowledging declining demand for EVs, S&P treated Hyundai’s and Kia’s EV investments as a positive credit factor supporting ratings upgrades.¹²⁷ But since then, auto manufacturers’ ill-advised investments in EVs have led to staggering write-downs of \$70 billion¹²⁸—and both Kia and Hyundai have been forced to slash their EV prices,¹²⁹ with Hyundai admitting that the cuts come “at the cost of lower profitability.”¹³⁰

e. Failure to Establish and Enforce Effective Internal Controls

The departures from stated methodologies noted above also indicate that the Ratings Agencies failed to establish and enforce effective internal controls to deal with their use of ESG factors.¹³¹ SEC regulations state that an internal control structure is not effective if the structure has “one or more material weaknesses.”¹³² The regulations state that a material weakness “exists if a deficiency, or a combination of deficiencies, in the design or operation of the internal control structure creates a reasonable possibility that a failure [of implementation or adherence] that is material will not be prevented or detected on a timely basis.”¹³³

¹²⁴ <https://www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/12085396/>

¹²⁵ <https://www.fitchratings.com/research/corporate-finance/fitch-upgrades-bp-to-a-outlook-stable-29-11-2023> (favorably noting “transition investments” including offshore wind and solar developments)

¹²⁶ See <https://www.bp.com/en/global/corporate/news-and-insights/press-releases/fourth-quarter-2025-trading-statement.html>; see also <https://www.morningstar.com/news/dow-jones/202601142174/bp-flags-5-billion-write-down-in-low-carbon-segment-warns-of-weak-oil-trading-update>

¹²⁷ <https://www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/13224236> (acknowledging “[s]fter consumer sentiment ... and a slowdown in the growth” of EV sales, but nevertheless upgrading ratings based on the belief that EV investments will promote a “competitive position amid the transition to electrification”)

¹²⁸ <https://money.usnews.com/investing/news/articles/2026-02-06/explainer-global-carmakers-book-55-billion-hit-from-ev-rollback>

¹²⁹ <https://www.prnewswire.com/news-releases/hyundai-lowers-price-on-2026-ioniq-5-ev-lineup-302572865.html>; <https://www.autoblog.com/news/hyundai-slashes-ioniq-5-prices-as-federal-ev-incentives-expire>; <https://www.autoblog.com/news/kia-ev6-just-became-one-of-the-cheapest-evs-after-a-huge-price-off>

¹³⁰ <https://www.kedglobal.com/electric-vehicles/newsView/ked202510020007>

¹³¹ 15 U.S.C. § 78o-7(c)(3)(A)

¹³² 17 C.F.R. § 240.17g-3(a)(7)(ii)

¹³³ 17 C.F.R. § 240.17g-3(a)(7)(iv)

In the SEC’s action against Morningstar’s NRSRO, the court held that failing to provide any “criteria dictating ‘how, why, or when to make’” credit adjustments would be a “fail[ure] to establish and enforce an effective internal control structure.”¹³⁴ If Morningstar’s ratings were adjusted “for reasons having nothing to do with a specific loan, such as to nudge a rating produced by the model to align with expectations,” then a ratings’ user might not understand the methodology.¹³⁵ The court noted that requiring “*some* effective controls” is not a judgment on the substance of Morningstar’s methodology.¹³⁶

Here, the Ratings Agencies issued the Downgrades for reasons that had nothing to do with the actual financials of the companies at issue, but instead nudged ratings in the direction of the Ratings Agencies’ ESG goals and commitments. None of the Ratings Agencies currently have a time horizon for ESG considerations.¹³⁷ Those agencies’ stated rationales are vague—for example, Moody’s oil and gas sector policies state vaguely that Moody’s may incorporate ESG considerations “in a variety of ways” whenever it thinks those considerations are “meaningful,” even if they “cannot be quantified.”¹³⁸ Without guidance about the “how, why, or when” to make ESG adjustments, analysts can use projections of events decades into the future to “nudge” ratings to align with ESG expectations, as was done in the Downgrades. This prevents the Ratings Agencies’ customers from understanding the agencies’ methodologies.

The Ratings Agencies’ lack of internal controls can also extend to inconsistent ESG ratings, which punish U.S. oil and gas companies. For example, S&P assigns a higher ESG score to the CCP-owned China Petroleum and Chemical Corporation than it does to Exxon, Valero, or Chevron,¹³⁹ despite the CCP’s dismal human-rights record.¹⁴⁰ Fitch takes similar actions, assigning a higher “ESG Relevance” warning score to Valero¹⁴¹ and Shell¹⁴² than it does to China Petroleum and Chemical Corporation.¹⁴³

III. The Ratings Agencies’ Continuing Maintenance of the Downgrades Illustrates Ongoing Conflicts of Interest

The Ratings Agencies’ decision to maintain the Downgrades illustrates undisclosed material conflicts of interest in violation of the Exchange Act. SEC regulations require ratings

¹³⁴ *U.S. Sec. & Exch. Comm’n v. Morningstar Credit Ratings, LLC*, 578 F. Supp. 3d 563, 568–69, 574–75 (S.D.N.Y. 2022)

¹³⁵ See 578 F. Supp. 3d at 569–70

¹³⁶ 578 F. Supp. 3d at 576

¹³⁷ See https://your.fitch.group/rs/732-CKH-767/images/climate-vulnerability-in-corporate-ratings-discussion-paper_Fitch_10225313.pdf (p. 4–6); <https://ratings.moody.com/rmc-documents/455705> (p. 2–3, 5); <https://www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/12085396/>

¹³⁸ <https://ratings.moody.com/rmc-documents/458955> (p. 13)

¹³⁹ <https://www.spglobal.com/sustainable1/en/scores/results?cid=5576887>; <https://www.spglobal.com/sustainable1/en/scores/results?cid=4004170>; <https://www.spglobal.com/sustainable1/en/scores/results?cid=3007562>; <https://www.spglobal.com/sustainable1/en/scores/results?cid=4011157>; see <https://www.fitchratings.com/research/corporate-finance/china-national-petroleum-corporation-29-08-2023> (noting that China Petroleum is “wholly owned” by the Chinese government)

¹⁴⁰ See, e.g., <https://usun.usmission.gov/joint-statement-on-the-human-rights-situation-in-china/>

¹⁴¹ <https://www.fitchratings.com/entity/valero-energy-corporation-80090098>

¹⁴² <https://www.fitchratings.com/entity/royal-dutch-shell-plc-80891259>

¹⁴³ <https://www.fitchratings.com/entity/china-petroleum-chemical-corporation-sinopec-80362354>

agencies to disclose material conflicts of interest. The Ratings Agencies committed to UN PRI to incorporate ESG factors into their credit ratings, regardless of whether those factors were material, and Moody's and S&P joined another group committed to "achieve net zero." The Ratings Agencies thus committed to use their ratings to increase the cost of capital of fossil-fuel companies and decrease investment in energy companies, both of which would reduce emissions by those companies. These stated ESG goals created significant pressure for the Ratings Agencies to announce and maintain ratings actions such as the Downgrades. The Ratings Agencies' offering of ESG-related services also produced a conflict—by announcing that they would incorporate ESG into their ratings, the Ratings Agencies drove companies towards those agencies' ESG consulting services. Yet Moody's and S&P never disclosed any of these ESG-related conflicts on SEC forms that mandate disclosure of material conflicts,¹⁴⁴ and Fitch has only made limited disclosures of some conflicts.¹⁴⁵ In addition, the Ratings Agencies' board members may have conflicts of interest, including conflicts arising from board members' close connections to ESG-related businesses. For example, one S&P board member is a CEO of a company seeking to "drive the green transition and accelerate full global decarbonisation."¹⁴⁶

a. Ratings Agencies Must Disclose Conflicts of Interest

NRSROs must disclose "any conflict of interest relating to the issuance of credit ratings by the applicant" under Section 15E of the Exchange Act.¹⁴⁷ The SEC's regulations state that Form NRSRO must be filed in accordance with "all applicable instructions for the Form."¹⁴⁸ The instructions for Form NRSRO state that Exhibit 6 to the form must not only identify listed conflicts, but also must "briefly describe any other type of conflict of interest relating to the issuance of credit ratings by the [NRSRO] ... that is material to the [NRSRO]."¹⁴⁹ The instructions do not define "material," but given the securities context, "material" likely means "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available."¹⁵⁰ This aligns with the purpose of the Ratings Agency Act, which modified the Exchange Act to "improve ratings quality for the protection of investors and in the public interest by fostering accountability, transparency, and competition in the credit rating industry,"¹⁵¹ and to "make public ... certain information to help persons assess [an NRSRO's] credibility."¹⁵²

¹⁴⁴ See <https://www.sec.gov/edgar/browse/?CIK=0001650548> (showing all S&P Ratings SEC filings); see, e.g., https://www.sec.gov/Archives/edgar/data/1650548/000165054822000001/SPGR_Ex6.Mar2022.pdf (March 2022 identification of conflicts of interest, failing to identify the UN PRI or NZFSPA conflicts)

¹⁴⁵ https://assets.ctfassets.net/03fbs7oah13w/01EsFIKWohGpdSRWWMK9Wga/3b87fd18c8cc4442004a59bef423613b/Exhibit_6.pdf

¹⁴⁶ <https://investor.spglobal.com/corporate-governance/board-of-directors/person-details/default.aspx?ItemId=765c7082-c658-481e-96d1-c588f1fc9eb3>; <https://investor.spglobal.com/corporate-governance/director-independence-compensation/director-independence/>; <https://tes-h2.com/mission>

¹⁴⁷ 15 U.S.C. § 78o-7(a)(1)(B)(vi) (emphasis added)

¹⁴⁸ 17 C.F.R. § 240.17g-1(a), (h)

¹⁴⁹ <https://www.sec.gov/about/forms/formnrsro.pdf> (p. 30)

¹⁵⁰ See *Basic Inc. v. Levinson*, 485 U.S. 224, 231–32 (1988) (applying test from *TSC Industries, Inc. v. Northway, Inc.*, 426 U.S. 438, 449 (1976) to a rule issued under another part of the Exchange Act)

¹⁵¹ <https://www.sec.gov/files/rules/final/2007/34-55857.pdf> (p. 233) (quoting Senate report)

¹⁵² <https://www.sec.gov/files/rules/final/2007/34-55857.pdf> (p. 3)

b. The Ratings Agencies Promised to Incorporate Their ESG Goals into Their Credit Ratings

The Ratings Agencies made blanket promises to incorporate ESG goals into ratings decision making, regardless of whether ESG issues were material to credit ratings. The Ratings Agencies pledged to UN PRI that they would “incorporate ESG issues into ... decision-making processes.”¹⁵³ Each agency also committed to “incorporating ESG into credit ratings and analysis in a systematic and transparent way,”¹⁵⁴ even though each agency has admitted that ESG issues are not always material.¹⁵⁵ The UN PRI states that its signatories (such as the Ratings Agencies) are “align[ing] our financial decisions with the **future we want to see**: a world where sustainable development is at the core of financial markets.”¹⁵⁶

Moody’s and S&P also committed to “accelerate” and “achieve” net zero when joining the NZFSPA. By joining, Moody’s and S&P affirmed that there was an “urgent need to accelerate the transition” to net zero, and committed to align “*all relevant services and products* to achieve net zero greenhouse gas emissions by 2050 or sooner, scaling and mainstreaming Paris Agreement-alignment *into the core of our business*.”¹⁵⁷ As NRSROs, the core of Moody’s and S&P’s business is providing ratings, and these agencies pledged to align *all* of their services with a goal to “achieve” net zero. The NZFSPA later stated that it was made up of “service providers committed to supporting the goal of global net zero greenhouse gas emissions by 2050 or sooner.”¹⁵⁸ As noted above, the NZFSPA’s core aspects appear to have been incorporated into UN PRI,¹⁵⁹ where the Ratings Agencies are members.¹⁶⁰

Moody’s and S&P both made clear in public announcements that their NZFSPA commitment was (1) in line with each agency’s goals, and (2) was a commitment to issue ratings to support net-zero goals. Moody’s stated when it joined the NZFSPA that “Moody’s aims to **accelerate the flow of capital to support the transition** to net-zero by providing financial institutions and other decision-makers with net-zero-aligned data, products, and services”¹⁶¹ When joining, S&P’s CEO stated that S&P was “**proud** to be using this experience and expertise

¹⁵³ <https://www.unpri.org/about-PRI/what-principles-for-responsible-investment>; *see* <https://www.unpri.org/supporters>

¹⁵⁴ <https://web.archive.org/web/20200417024717/https://www.unpri.org/credit-ratings/statement-on-esg-in-credit-ratings/77.article>

¹⁵⁵ *See, e.g.*, <https://www.fitchratings.com/research/banks/fitch-general-esg-approach-29-01-2026> (p. 3); <https://ratings.moody.com/rmc-documents/455705> (p. 3); <https://maalot.co.il/Publications/TS20211007173053.PDF> (p. 2)

¹⁵⁶ <https://www.unpri.org/about-PRI/what-principles-for-responsible-investment> (emphasis added)

¹⁵⁷ <https://public.unpri.org/net-zero-financial-service-providers-alliance/commitment> (emphases added); *see* <https://press.spglobal.com/2021-09-21-S-P-Global-joins-the-Net-Zero-Financial-Services-Provider-Alliance-part-of-the-Glasgow-Financial-Alliance-for-Net-Zero>

¹⁵⁸ https://dwtzyx6upklss.cloudfront.net/Uploads/j/a/v/target_setting_framework_and_guidance_for_rd_providers_654194.pdf (p. 3)

¹⁵⁹ <https://public.unpri.org/news-and-events/nzfspa-reorganises-and-concludes-as-standalone-initiative/13583.article>

¹⁶⁰ <https://www.unpri.org/supporters>

¹⁶¹ <https://ir.moody.com/press-releases/news-details/2021/Moodys-Announces-Participation-in-New-GFANZ-Alliance-Commits-to-Align-Products-and-Services-to-Achieve-Net-Zero-Greenhouse-Gas-Emissions-by-2050/default.aspx> (emphasis added)

to inform the global market transition.”¹⁶² He also stated that S&P joined the NZFSPA to support “**our common goal** of a resilient and sustainable future.”¹⁶³

c. The Ratings Agencies’ ESG Goals Created Material Conflicts of Interest Consistent with the Creation and Maintenance of the Downgrades

The Ratings Agencies’ ESG goals created material conflicts of interest because disclosing on Form NRSRO their commitments to incorporate ESG into ratings decisions (regardless of ESG’s connection to credit or materiality) would have significantly altered the “total mix” of information for the Ratings Agencies’ customers.¹⁶⁴ ESG goals demand radically reduced fossil-fuel usage, so incorporating those goals into ratings decision making became part of the basis for the creation and maintenance of the Downgrades. This influence on ratings should have been disclosed, as instructed by the SEC, and this failure to disclose appears to be consistent with previous violations identified by the SEC.

ESG goals demand slashing fossil fuels’ share of global energy consumption by over 70% between 2022 and 2050.¹⁶⁵ ESG activists had long stressed the “need to challenge” ratings agencies to downgrade oil and gas companies in line with net-zero goals, based on activists’ admittedly “ideali[z]ed scenario” where fossil-fuel assets become “stranded assets” due to sweeping governmental policy changes.¹⁶⁶ Credit-rating downgrades have been an area of focus for ESG activists because ratings affect investor decision making,¹⁶⁷ and even a “relatively small drop in upstream investment can mean the difference between oil and gas supply growth and static production.”¹⁶⁸ If a ratings agency classified further oil and gas production as creating potential stranded assets, it could quickly curb oil and gas expansion.

As noted above, the Ratings Agencies based downgrades on their ESG predictions, such as: (1) stricter governmental fossil-fuel policies and regulations, (2) a rapid peak for fossil fuels, resulting in stranded assets, (3) renewable energy taking fossil-fuel market share, and (4) increased ESG investment mandates; but none of those predictions have proven to be correct.

The Ratings Agencies’ ESG goals created material conflicts of interest, because the goals would have been viewed by the reasonable customer of each agency’s services as having significantly altered the “total mix” of information regarding the agency’s ratings. A reasonable customer armed with information about the Ratings Agencies’ UN PRI commitment would

¹⁶² <https://press.spglobal.com/2021-09-21-S-P-Global-joins-the-Net-Zero-Financial-Services-Provider-Alliance.-part-of-the-Glasgow-Financial-Alliance-for-Net-Zero> (emphasis added)

¹⁶³ <https://public.unpri.org/net-zero-financial-service-providers-alliance/net-zero-gets-boost-from-global-financial-powerhouses/11719.article> (emphasis added)

¹⁶⁴ See *Basic Inc. v. Levinson*, 485 U.S. 224, 231–32 (1988) (applying test from *TSC Industries, Inc. v. Northway, Inc.*, 426 U.S. 438, 449 (1976) to a rule issued under another part of the Exchange Act)

¹⁶⁵ <https://www.iea.org/reports/net-zero-roadmap-a-global-pathway-to-keep-the-15-c-goal-in-reach> (PDF p. 195) (oil, gas, and coal’s combined share of total energy consumption moves from 66% in 2022 to 18% by 2050)

¹⁶⁶ See, e.g., <https://carbontracker.org/reports/unburnable-carbon-wasted-capital-and-stranded-assets/> (arguing that, with regard to oil and gas production, “credit ratings methodologies do not typically inform investors about their exposure to these stranded assets”)

¹⁶⁷ See <https://www.spglobal.com/ratings/en/credit-ratings/about/understanding-credit-ratings#use-of-ratings> (“Credit ratings are one of several inputs investors ... may use in their decision-making process.”)

¹⁶⁸ <https://www.iea.org/reports/the-implications-of-oil-and-gas-field-decline-rates> (PDF p. 1)

recognize that the Downgrades likely were driven by the Ratings Agencies incorporating ESG factors rather than assessing actual credit risks. Moody's and S&P's customers informed of those agencies' NZFSPA commitments also would be presented with a different "total mix" of information when considering whether those Agencies maintained the Downgrades based on actual credit risks.

The Ratings Agencies have demonstrated a pattern of failing to meet SEC standards. The SEC has had to sanction each of the agencies in recent years for violations, including a \$16.25 million settlement with Moody's over internal control failures,¹⁶⁹ a conflict-of-interest issue at S&P that ended in a \$2.5 million settlement in 2022,¹⁷⁰ and record-keeping failures at each of the Ratings Agencies that resulted in a combined \$48 million settlement in 2024.¹⁷¹

d. The Ratings Agencies' ESG Goals Also Created Commercial Conflicts of Interest

In conjunction with their ESG goals, the Ratings Agencies' dual offering of credit-rating products and ESG-related products also gives rise to commercial conflicts of interest. The Ratings Agencies' ESG goals bolster their marketing and sale of their ESG-related products, some of which have surged in recent years.¹⁷² Because the Ratings Agencies incorporate ESG goals into their credit ratings, companies that do not have ESG goals and that seek only credit-rating services are incentivized to purchase the Ratings Agencies' ESG-related products. For example, S&P states that companies that buy ESG consulting services can "enhance" or "elevate" their sustainability performance,¹⁷³ which by extension would increase credit ratings that incorporate ESG factors. Moody's also suggests its ESG-related services (such as a "Net Zero Assessment") can improve credit ratings, and touts Moody's "combination of credit rating expertise with deep Sustainable Finance insights," allowing clients to "understand[] the impact of transition finance risks on credit."¹⁷⁴ Furthermore, the Ratings Agencies may have been subject to commercial pressure from their asset manager clients. Asset managers previously agreed to pressure the Ratings Agencies to align their ratings with net zero, as those clients who were members of NZAM expressly promised

¹⁶⁹ <https://www.sec.gov/newsroom/press-releases/2018-169>

¹⁷⁰ <https://www.sec.gov/files/litigation/admin/2022/34-96308.pdf>

¹⁷¹ https://www.sec.gov/Archives/edgar/data/1650548/000165054824000007/SPGR-APPFM-DRP_Dec2024-3.pdf

¹⁷² See, e.g., <https://www.spglobal.com/en/who-we-are/corporate-responsibility/impact-report/sustainability-products-and-data> (reporting \$359 million in "energy transition and sustainability revenue," with a 19% year-over-year increase); https://s29.q4cdn.com/690959130/files/doc_financials/2025/q3/S-P-Global-3Q-2025-Earnings-Call-Slides-10-30-2025.pdf, at 13 (2025 quarterly report showing "[c]ontinued strong progress" in the "strategic revenue initiative[]" of "Energy Transition & Sustainability," which saw a 6% increase in revenue)

¹⁷³ See, e.g., <https://www.spglobal.com/esg/sl/products/esg-corporate-governance-mergers-acquisitions-services.html> (offering "[s]trategic ESG advisory services to support companies improving their ESG profile"); <https://www.spglobal.com/sustainable1/en/solutions> (offering support from "ESG specialists" to advise companies on their "next steps" and help them "navigate the transition to a sustainable future"); <https://www.spglobal.com/market-intelligence/en/solutions/energy-transition-and-sustainability> (services to "enhanc[e] sustainability practices" and "elevate ... sustainability performance"); <https://www.marketplace.spglobal.com/en/solutions/sustainability-portfolio-analytics-services-%2828209bed5c-7a41-4468-b4a5-88175f158f29%29> (offering a "Sustainability Portfolio Assessment Service" to help clients assess climate-related risks)

¹⁷⁴ <https://www.moodys.com/web/en/us/campaigns/ratings/transition-finance.html>. Moody's no longer offers separate ESG ratings, but still offers these ESG-related services. See <https://www.responsible-investor.com/stakeholders-wary-of-market-consolidation-as-moodys-closes-esg-ratings-business/>

to “[e]ngage with ... credit rating agencies ... to ensure that products and services available to investors are consistent with ... net zero.”¹⁷⁵

Issuing ratings while offering ESG services can create serious conflicts of interest for NRSROs, as recognized by the SEC’s Office of Credit Ratings under both the Biden¹⁷⁶ and Trump¹⁷⁷ administrations. For example, in 2020 OCR warned of “conflicts of interests that may arise in connection with the NRSROs’ ESG-related activities.”¹⁷⁸ OCR likewise flagged in 2022 that it had “identified the potential risk for conflicts of interest if an NRSRO offers ratings and non-ratings ESG products and services.”¹⁷⁹ European regulators have raised similar concerns.¹⁸⁰

Researchers also have demonstrated that ESG-related services create a conflict. In recent years, Moody’s and S&P have acquired ESG rating agencies.¹⁸¹ One recent study found that “after the acquisition, firms that have existing credit rating business with Moody’s and S&P receive higher ESG ratings than those that do not.”¹⁸² After these acquisitions, “the ESG rating agencies may experience pressure from the parent companies to issue favorable ESG ratings to their credit rating clients that desire higher ESG ratings.”¹⁸³ The ESG ratings inflation is mutually beneficial: “The upwardly biased ESG ratings help client firms issue more green bonds and help Moody’s and S&P maintain credit rating business.”¹⁸⁴ Another study found that “a firm receives a higher ESG rating when its major shareholders also hold a large stake in the rating agency,”¹⁸⁵ with the effect disappearing once the “connection between sister firms and the rating agency is severed.”¹⁸⁶

e. The Ratings Agencies Do Not Adequately Disclose These Conflicts of Interest

The Ratings Agencies have not adequately disclosed their conflicts of interest. Moody’s and S&P never disclosed any of their ESG-related conflicts on required SEC forms,¹⁸⁷ and Fitch has only made inadequate disclosures of one type of ESG-related conflict.¹⁸⁸

¹⁷⁵ <https://www.netzeroassetmanagers.org/media/2021/12/NZAM-Commitment.pdf>

¹⁷⁶ <https://www.sec.gov/files/2022-ocr-staff-report.pdf> (p. 8)

¹⁷⁷ <https://www.sec.gov/files/nrsro-summary-report-2020.pdf> (p. 7)

¹⁷⁸ <https://www.sec.gov/files/nrsro-summary-report-2020.pdf> (p. 7)

¹⁷⁹ <https://www.sec.gov/files/2022-ocr-staff-report.pdf> (p. 8)

¹⁸⁰ https://www.esma.europa.eu/sites/default/files/library/esma50-165-1524_trv_1_2021.pdf (p. 114) (“The coexistence of ESG ratings with other business activities in several ESG rating firms, such as credit ratings, benchmark construction, consulting services or asset management, further creates fertile ground for potential conflicts of interest.”)

¹⁸¹ <https://onlinelibrary.wiley.com/doi/epdf/10.1111/1475-679X.12582>

¹⁸² <https://onlinelibrary.wiley.com/doi/epdf/10.1111/1475-679X.12582> (p. 1935)

¹⁸³ <https://onlinelibrary.wiley.com/doi/epdf/10.1111/1475-679X.12582> (p. 1903)

¹⁸⁴ <https://onlinelibrary.wiley.com/doi/epdf/10.1111/1475-679X.12582> (p. 1936)

¹⁸⁵ <https://onlinelibrary.wiley.com/doi/epdf/10.1111/1475-679X.70016> (p. 1090)

¹⁸⁶ <https://onlinelibrary.wiley.com/doi/epdf/10.1111/1475-679X.70016> (p. 1091)

¹⁸⁷ See <https://ratings.moodys.com/rmc-documents/361238>;

<https://www.sec.gov/Archives/edgar/data/1698547/000119312522091347/d316388dex99e6nrsro.pdf> (2022 Moody’s disclosure); <https://www.spglobal.com/ratings/en/regulatory/delegate/getPDF?articleId=2969909>;

https://www.sec.gov/Archives/edgar/data/1650548/000165054822000001/SPGR_Ex6.Mar2022.pdf (2022 S&P disclosure)

¹⁸⁸ https://assets.ctfassets.net/03fbs7oah13w/01EsFIKWohGpdSRWMK9Wga/3b87fd18c8cc4442004a59bef423613b/Exhibit_6.pdf (noting that Fitch’s affiliates provide ESG ratings on issuers and securities that Fitch also rates)

Despite the SEC’s OCR’s explicit caution about conflicts arising from an NRSRO’s ESG-related activities and offering of ESG-related products and services, Moody’s and S&P’s Exhibit 6 forms say nothing about ESG and do not identify any ESG-related conflicts.¹⁸⁹ Moody’s and S&P’s Exhibit 6 forms list multiple “types” or categories of conflicts, but none of those categories include conflicts related to their offering of ESG products while creating credit ratings that incorporate ESG factors. For example, S&P provides a generic disclosure of conflicts related to its receipt of payment for other “services in addition to determining credit ratings by issuers ... that have paid [S&P] to determine a credit rating.”¹⁹⁰ Similarly, S&P discloses its receipt of payment “for subscriptions to receive or access the credit ratings of [S&P] and/or for other services offered by [S&P].”¹⁹¹ However, these disclosures leave out the material fact that some of those other “services” that companies can purchase are ESG-related services that raise the specific type of ESG-related conflicts flagged by the federal OCR. This is especially problematic given S&P’s lucrative ESG-related risk-assessment services,¹⁹² which credit-rating clients are incentivized to purchase to address any negative credit findings that are based on S&P’s incorporation of ESG factors into the ratings analysis.

Although Fitch discloses on its Exhibit 6 that its affiliates provide ESG ratings on issuers and securities that Fitch also rates,¹⁹³ covering a topic that Moody’s and S&P omit, Fitch does not address other conflicts identified above, such as the conflict between Fitch’s UN PRI commitments and its ratings.

f. The Ratings Agencies’ Board Members Also May Have Conflicts of Interest

The Ratings Agencies’ board members may have conflicts of interest as well. For example, S&P board member Marco Alverà is CEO and Investor in Tree Energy Solutions,¹⁹⁴ a company seeking to “drive the green transition and accelerate full global decarbonisation.”¹⁹⁵ Another S&P

¹⁸⁹ See <https://ratings.moody.com/rmc-documents/361238>; <https://www.sec.gov/Archives/edgar/data/1698547/000119312522091347/d316388dex99e6nrsro.pdf> (2022 Moody’s disclosure); <https://www.spglobal.com/ratings/en/regulatory/delegate/getPDF?articleId=2969909>; https://www.sec.gov/Archives/edgar/data/1650548/000165054822000001/SPGR_Ex6.Mar2022.pdf (2022 S&P disclosure)

¹⁹⁰ https://www.sec.gov/Archives/edgar/data/1650548/000165054822000001/SPGR_Ex6.Mar2022.pdf; <https://www.spglobal.com/ratings/en/regulatory/delegate/getPDF?articleId=2969909&type=COMMENTS&subType=REGULATORY&defaultFormat=PDF>

¹⁹¹ https://www.sec.gov/Archives/edgar/data/1650548/000165054822000001/SPGR_Ex6.Mar2022.pdf; <https://www.spglobal.com/ratings/en/regulatory/delegate/getPDF?articleId=2969909&type=COMMENTS&subType=REGULATORY&defaultFormat=PDF>

¹⁹² See, e.g., https://s29.q4cdn.com/690959130/files/doc_financials/2025/q3/S-P-Global-3Q-2025-Earnings-Call-Slides-10-30-2025.pdf (p. 13) (showing “Energy Transition & Sustainability” revenue growing to \$96 million in Q3 2025)

¹⁹³ https://assets.ctfassets.net/03fbs7oah13w/01EsFIKWohGpdSRWMK9Wga/3b87fd18c8cc4442004a59bef423613b/Exhibit_6.pdf (noting that Fitch’s affiliates provide ESG ratings on issuers and securities that Fitch also rates)

¹⁹⁴ <https://investor.spglobal.com/corporate-governance/board-of-directors/person-details/default.aspx?ItemId=765c7082-c658-481e-96d1-c588f1fc9eb3>; <https://investor.spglobal.com/corporate-governance/director-independence-compensation/director-independence/>

¹⁹⁵ <https://tes-h2.com/mission>

board member, Robert Moritz,¹⁹⁶ is a former auditing executive with an incentive to push ESG policies that increase demand for ESG-related auditing services. As Global Chair of PricewaterhouseCoopers LLP (“PwC”),¹⁹⁷ Moritz called ESG a “business imperative”¹⁹⁸ and championed auditing services to help companies implement net zero and “embed ESG across the entirety of their organizations.”¹⁹⁹ Moritz also sits on the board of Northern Trust,²⁰⁰ which previously committed as part of NZAM to pressure ratings agencies to align their services with net zero.²⁰¹ Other board members of the Ratings Agencies may have conflicts as well, either through direct roles like Alverà’s and Moritz’s, or through other financial interests such as stock ownership in companies that benefit from the Downgrades.

IV. The Ratings Agencies’ Conflicts and Departures from Their Methodologies Have Harmed Fossil Fuel-Producing States

The Ratings Agencies’ undisclosed conflicts and departures from their methodologies also harmed fossil-fuel-producing states, both through the State Downgrades and through the Downgrades. The Ratings Agencies have downgraded states’ credit ratings based on faulty ESG predictions about the “energy transition” and the supposed decline of oil and gas. Even after those predictions proved false, the Ratings Agencies have continued to rely on them to penalize fossil-fuel-producing states by treating their connection to fossil fuels as a negative credit factor. In addition to the State Downgrades increasing states’ or municipalities’ cost of credit, the Downgrades have harmed states by (1) decreasing economic activity and tax revenues, and (2) depressing the share value of states’ holdings in fossil-fuel companies, or misleading states into overvaluing renewable-energy companies.

a. The Ratings Agencies Have Downgraded State Entities Based on ESG Predictions

Some of the State Downgrades were based on ESG predictions, similar to those used in the Downgrades. Moody’s changed Alaska’s credit outlook from “stable” to “negative” in 2019, stating that Alaska’s “credit challenges” included “high reliance on the state’s oil production industry.”²⁰² S&P downgraded its outlook on four states (Alaska, New Mexico, Pennsylvania, and

¹⁹⁶ <https://investor.spglobal.com/corporate-governance/board-of-directors/person-details/default.aspx?ItemId=bc0b0d64-6235-4438-bc74-2660b0bfe61a>

¹⁹⁷ <https://investor.spglobal.com/corporate-governance/board-of-directors/person-details/default.aspx?ItemId=bc0b0d64-6235-4438-bc74-2660b0bfe61a>

¹⁹⁸ <https://www.pwc.com/gx/en/news-room/press-releases/2022/pwc-and-sap-launch-new-innovation-strategy-to-help-organizations-achieve-their-esg-and-net-zero-targets.html>

¹⁹⁹ <https://www.youtube.com/watch?v=441FpNdYMjU> (2:15–2:24); *see*

<https://www.pwc.com/us/en/services/esg/esg-reporting.html> (sample of PwC’s ESG services)

²⁰⁰ <https://www.northerntrust.com/japan/insights-research/corporate/experts/moritz-robert>

²⁰¹ <https://www.netzeroassetmanagers.org/media/2021/12/NZAM-Commitment.pdf>. Northern Trust was a member of NZAM from 2022 to 2025. *See* <https://www.netzeroassetmanagers.org/net-zero-asset-managers-initiative-announces-initial-targets-for-86-investors-as-total-number-of-asset-managers-committing-to-net-zero-increases-to-291/>; <https://www.esgdrive.com/news/northern-trust-am-exits-climate-action-100-net-zero-asset-managers-initiative/738272/>

²⁰² <https://www.adn.com/politics/2019/07/26/moodys-downgrades-alaskas-outlook-because-of-political-paralysis-amid-budget-turmoil/>

West Virginia) in 2021 “partly due to the weakness of the energy producing sector.”²⁰³ S&P also issued a sweeping research report the same year, ominously titled “U.S. Oil And Gas-Dependent States Are Out Of The Woods (**For Now**).”²⁰⁴ Based on the “evolving credit risks” of “increasing regulations of carbon emissions and an accelerating energy transition to renewable energy,”²⁰⁵ the report issued multiple warnings about fossil-fuel-producing states, including: (1) “[e]nergy transition accelerating, adding future headwinds to states’ credit quality”; (2) “mineral-producing states ... may lag their peers”; and (3) “mineral-producing states face uncertainty whether recent positive momentum will last.”²⁰⁶

S&P also has penalized governmental entities within states with fossil-fuel production. It weighed down the rating for North Slope Borough, Alaska, because “the local economy’s heavy dependence on oil and gas production exposes the borough to outsized transition risks.”²⁰⁷ It also downgraded Odessa, Texas, in part because of its “dependence on the volatile oil and gas industry.”²⁰⁸ Recently, S&P stated that South Carolina’s Public Service Authority “faces environmental transition risk given its predominately fossil-fuel fired resource mix (51% coal and 25% natural gas in 2025).”²⁰⁹

b. The Ratings Agencies Have Continued to Penalize States Based on ESG Goals and Predictions

The Ratings Agencies have continued to use their ESG goals and predictions against fossil-fuel-producing states, applying penalizations through inconsistent standards even while admitting that those states are performing well in part due to continued fossil-fuel demand.²¹⁰ Given the increasing demand for fossil fuels, together with the continued transition of federal policy in favor of fossil-fuel production, a state economy’s connection to fossil fuels should contribute to a positive financial outlook by any objective measure. Yet the Ratings Agencies continue to characterize those connections as a negative, increasing states’ cost of credit.

S&P’s continued use of ESG goals is reflected in its inconsistent rationales for suppressing ratings for fossil-fuel-producing states. S&P noted in January of this year that New Mexico is the

²⁰³ <https://www.alacrastore.com/s-and-p-credit-research/a-2629068> (article available for purchase). The four states were Alaska, New Mexico, Pennsylvania, and Wyoming. *See id.* (listing the outlook for the first three states as “Negative”); <https://www.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/2465821> (downgrading Wyoming and stating that “we consider Wyoming to have higher environmental and social risks compared with those of other states”)

²⁰⁴ <https://www.alacrastore.com/s-and-p-credit-research/a-2629068> (article available for purchase) (emphasis added)

²⁰⁵ <https://www.alacrastore.com/s-and-p-credit-research/a-2629068> (article available for purchase)

²⁰⁶ <https://www.alacrastore.com/s-and-p-credit-research/a-2629068> (article available for purchase)

²⁰⁷ <https://www.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3458940>

²⁰⁸ <https://www.alacrastore.com/s-and-p-credit-research/Odessa-TX-GO-Debt-Rating-Lowered-To-AA-On-Pension-Funding-Concerns-1954561> (available for purchase)

²⁰⁹ https://www.santecooper.com/About/Investors/easset_upload_file53799_83090_e.pdf (p. 3)

²¹⁰ <https://statetreasurer.wyo.gov/wp-content/uploads/2024/04/Wyoming-ratings-April-2024.pdf> (p. 4, 7) (keeping Wyoming’s credit rating unchanged and stating that “the evolving federal regulatory landscape that encourages the transition to renewable energy sources from traditional carbon sources may negatively affect states with reliance on these industries for economic growth and major revenue sources,” even while admitting that “[s]trong oil and gas prices” had led to “very strong performance” for Wyoming); <https://www.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3499942> (New Mexico)

“second-largest crude oil producer in the nation,” but declared this to be a *negative*, because “shifting federal policy priorities” could “negatively affect financial operations.”²¹¹ But federal policy priorities currently are shifting in favor of oil production, not against it,²¹² making this justification nonsensical. This also demonstrates that S&P is operating based on bias rather than a consistent methodology—S&P previously issued downgrades in part due to the then-current policy priorities of the Biden Administration, but it continues to penalize fossil-fuel-producing states during the Trump Administration, apparently based on the possibility of federal policies “shifting” in the future. In another example of inconsistency, S&P has opined that Alaska’s “heavy reliance on oil revenues is constraining the economy of the state.”²¹³ S&P has also faulted Alaska for its “continued dependence on revenues” from fossil fuels, which supposedly leave the state “vulnerable” and “exacerbate budgetary pressures.”²¹⁴ But S&P also appeared to fault Pennsylvania for precisely the opposite—that is, for *not* collecting tax revenue from fossil fuel extraction.²¹⁵ These inconsistencies further suggest that S&P is failing to maintain internal controls and is instead allowing ESG goals to shape its ratings.

Moody’s similarly stated that New Mexico faces “[c]redit challenges,” including “[a]bove-average exposure to environmental risks, including carbon transition,” and noted that a factor that could lead to a downgrade is New Mexico’s “[m]aterial weakness in the oil and gas industry leading to ... significant negative volatility in oil and gas severance tax revenues.”²¹⁶ Moody’s has made similar statements with regard to North Dakota, finding North Dakota’s “[r]eliance on oil and gas tax revenue” to be a credit challenge and listing “[r]educd general fund exposure to oil and gas tax revenue” as a factor that could lead to an upgrade.²¹⁷

When upgrading Alaska’s outlook, Fitch warned that Alaska nonetheless could face a downgrade if it “return[ed] to a prolonged lower energy price environment, potentially driven by more rapid acceleration of the transition from carbon-based fuels than currently anticipated, that challenges the state’s ability to maintain structural balance and maintain reserves.”²¹⁸ Fitch has also indicated that its West Virginia rating factors in “long-term fiscal challenges stemming from structural trends in coal and natural gas markets which have stressed West Virginia’s economy and financial flexibility.”²¹⁹

²¹¹ <https://www.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3499942>

²¹² See, e.g., <https://www.energy.gov/articles/fact-sheet-delivering-us-oil-and-natural-gas-production>

²¹³ https://treasury.dor.alaska.gov/docs/treasurydivisionlibraries/debt-management/alaska-credit-rating/2017_7-standard-and-poors-report.pdf (p. 2–3) (noting that historical changes in Alaska’s economy “reflect[] the oil and gas sector”)

²¹⁴ https://treasury.dor.alaska.gov/docs/treasurydivisionlibraries/debt-management/alaska-credit-rating/2017_7-standard-and-poors-report.pdf (p. 2, 5); see <https://www.alacrastore.com/s-and-p-credit-research/a-2629068> (article available for purchase) (opining that West Virginia’s severance tax collections contribute to “budget pressures,” and that Wyoming’s reliance on mineral-related taxes has led to a budgeting deficit)

²¹⁵ <https://www.alacrastore.com/s-and-p-credit-research/a-2629068> (article available for purchase) (listing Pennsylvania as having a negative outlook and noting that Pennsylvania is “the only major gas-producing state that does not impose a severance tax on its extracted resources”)

²¹⁶ https://www.nmdfa.state.nm.us/wp-content/uploads/2024/10/Credit_Opinion-NM.pdf (p. 2)

²¹⁷ <https://ndlegis.gov/sites/default/files/pdf/newsletter/moodys-nd-credit-rating-june-2025.pdf> (p. 2)

²¹⁸ <https://www.fitchratings.com/research/us-public-finance/fitch-upgrades-alaska-idr-to-aa-outlook-stable-12-09-2025>

²¹⁹ <https://www.fitchratings.com/research/us-public-finance/state-of-west-virginia-11-12-2024>

c. The Downgrades Harm States' Economies and Tax Revenues

Not only did the State Downgrades harm states by increasing the cost of credit, the Downgrades of the fossil-fuel sector and fossil-fuel companies also harmed fossil-fuel-producing states, because the economy and tax revenue in those states is especially dependent on fossil fuels. For example, in a 2017 report, S&P noted that Alaska's economy and general-fund finances tend to track the oil and gas sector.²²⁰ And in a 2022 report, S&P again acknowledged the "dependence of [Alaska's] state finances on the petroleum industry," specifying that Alaska "is largely dependent on petroleum-related taxes and permanent fund income."²²¹ In a 2024 report, S&P noted that "Wyoming's dependence on the coal, oil, and gas mining industries for both the state's economic activity and its tax revenue could have an impact on budgetary performance in the long term."²²² The Ratings Agencies' maintenance of the Downgrades for the fossil-fuel sector harms states like Alaska and Wyoming where fossil-fuel companies or operations are located. Without the Downgrades, Alaska and Wyoming likely would have received additional tax revenue from increased fossil-fuel production and company growth and operations.

d. The Downgrades Harm States' Investments

States' investment portfolios also have been harmed by the Downgrades to fossil-fuel companies or upgrades of renewable energy companies, when those downgrades and upgrades resulted from methodological failures and undisclosed conflicts, in two ways. First, to the extent state pension plans or other state entities held stock in fossil-fuel companies, that stock was artificially depressed by the Downgrades. Second, states suffered injury if they moved money from fossil-fuel investments to companies embracing renewable energy, in line with the Ratings Agencies' ESG predictions. A state that invested in S&P's Global Clean Energy Transition Index five years ago has lost money,²²³ but a state that invested in S&P's Global Oil Index five years ago has nearly doubled its investment.²²⁴ States previously sued Moody's and S&P Financial Services over similar losses related to mortgage-backed securities during the financial crisis,²²⁵ resulting in settlements totaling over \$2 billion.²²⁶

V. Antitrust Concerns

The Ratings Agencies' coordinated adoption of ESG methodologies through UN PRI and NZFSPA raises serious concerns under Section 1 of the Sherman Act and analogous state antitrust laws. All three Ratings Agencies signed the UN PRI Statement on ESG in Credit Risk and Ratings,

²²⁰ https://treasury.dor.alaska.gov/docs/treasurydivisionlibraries/debt-management/alaska-credit-rating/2017_7-standard-and-poors-report.pdf (p. 2–3) (noting that historical changes in Alaska's economy "reflect[] the oil and gas sector")

²²¹ <https://treasury.dor.alaska.gov/docs/treasurydivisionlibraries/debt-management/alaska-credit-rating/s-p-ratings-3-21-22.pdf> (p. 3–4); *see id.* (p. 3) (noting Alaska's "financial reliance on the cyclical petroleum industry")

²²² <https://statetreasurer.wyo.gov/wp-content/uploads/2024/04/Wyoming-ratings-April-2024.pdf> (p. 4)

²²³ <https://www.spglobal.com/spdji/en/indices/sustainability/sp-global-clean-energy-transition-index/#overview>

²²⁴ <https://www.spglobal.com/spdji/en/indices/equity/sp-global-oil-index/#overview>

²²⁵ *See, e.g.*, <https://ia600207.us.archive.org/31/items/gov.uscourts.mssd.75665/gov.uscourts.mssd.75665.27.0.pdf>

²²⁶ <https://www.justice.gov/archives/opa/pr/justice-department-and-state-partners-secure-1375-billion-settlement-sp-defrauding-investors>; <https://www.justice.gov/archives/opa/pr/justice-department-and-state-partners-secure-nearly-864-million-settlement-moody-s-arising>

committing to evaluate ESG factors and participate in coordinated industry forums where competing analysts discussed methodology changes. Moody’s and S&P both joined NZFSPA, committing to align “all relevant products and services” with net zero. The PRI organized over 20 global forums bringing credit analysts from competing agencies together to discuss ESG methodology—precisely the type of competitor coordination that antitrust law prohibits. Following these coordinated commitments, all three agencies made strikingly parallel methodology changes within a compressed timeframe. This conduct among firms controlling approximately 95% of the global credit rating market fits the hub-and-spoke conspiracy framework, with UN PRI and NZFSPA serving as the “hub” coordinating otherwise competing agencies.

State attorneys general successfully applied these theories to collapse the Net Zero Insurance Alliance and the Net Zero Banking Alliance, and a coalition of 22 state attorneys general previously sent letters to NZFSPA members—explicitly naming S&P Global and Moody’s—raising concerns about concerted action, illegal boycotts, and artificial supply restriction. Most significantly, the Texas-led antitrust action against BlackRock, Vanguard, and State Street survived motions to dismiss, and Vanguard settled in February 2026 for \$29.5 million, agreeing to withdraw from PRI and committing never to rejoin climate-focused investment coalitions. That settlement establishes a powerful precedent for actions against credit rating agencies engaged in similar coordinated ESG conduct. The undersigned attorneys general are evaluating whether the Ratings Agencies’ coordinated ESG adoption warrants similar antitrust scrutiny.

VI. The Ratings Agencies’ Conflicts and Departures from Their Methodologies Implicate State UDAP Laws and Harm States’ Investments

The Ratings Agencies’ misleading representations implicate state unfair and deceptive acts and practices (“UDAP”) laws. States and the U.S. Department of Justice previously sued S&P Financial Services and Moody’s for unfair and deceptive representations related to ratings of residential mortgage-backed securities, resulting in settlements totaling over \$2 billion.²²⁷ State claims against S&P Financial Services and Moody’s included that the agencies had falsely represented that their ratings were “independent” and “objective,” while allowing the “desire for increased revenue and market share in the structured finance ratings market to influence ... the ratings that were ultimately assigned to these investments.”²²⁸ States also have previously flagged UDAP concerns with S&P’s “opaque” ESG ratings, which inexplicably ranked partially-state-

²²⁷ <https://www.justice.gov/archives/opa/pr/justice-department-and-state-partners-secure-1375-billion-settlement-sp-defrauding-investors>; <https://www.justice.gov/archives/opa/pr/justice-department-and-state-partners-secure-nearly-864-million-settlement-moody-s-arising>

²²⁸ See <https://web.archive.org/web/20100603125933/https://www.ct.gov/ag/lib/ag/antitrust/mcgraw-hillcomplaint2.pdf> (¶¶ 2–6);

<https://web.archive.org/web/20100603125859/http://www.ct.gov/ag/lib/ag/antitrust/moodycomplaint.pdf> (¶¶ 2–6).

The states clarified that they were not challenging S&P’s or Moody’s judgment on which methodology to use, or any particular ratings, but instead was focused on “the fact that [the Ratings Agencies] represented that [their] ratings on structured finance securities were independent [and] objective,” when that assertion was “false and [they] knew it.”

<https://web.archive.org/web/20100603125933/https://www.ct.gov/ag/lib/ag/antitrust/mcgraw-hillcomplaint2.pdf> (¶¶ 9–10); <https://web.archive.org/web/20100603125859/http://www.ct.gov/ag/lib/ag/antitrust/moodycomplaint.pdf> (¶¶ 11–12)

owned Russian and Chinese companies ahead of their U.S. counterparts, despite Russia’s and China’s atrocious human-rights records.²²⁹

The Ratings Agencies continue to allow their ESG goals to influence ratings, but misrepresent to the public that their ratings products are “independent” and “objective.”²³⁰ Information cannot be independent and objective when it is shaped by political objectives. The Ratings Agencies further misrepresent that they identify potential conflicts of interest and provide transparency to the market.²³¹ They have also misrepresented or failed to disclose material conflicts of interest, which conflicts with UDAP laws—for example, Moody’s Code of Professional Conduct promises that “disclosures of known actual and potential conflicts of interest will be complete, timely, clear, concise, specific, and prominently displayed.”²³²

VII. Conclusion

The Ratings Agencies’ Downgrades were largely premised on far-fetched ESG goals that have not materialized. The Downgrades violated stated methodologies and reflected undisclosed material conflicts of interest, implicating SEC rules and state consumer protection laws. The Ratings Agencies also have harmed states with fossil-fuel production, including by using similarly flawed methodologies to create the State Downgrades. The combined settlements for the Ratings Agencies’ prior methodological failures exceeded \$2.3 billion, and the legal theories supporting enforcement here are at least as strong.

VIII. Requested Actions

Given the severity of these failures and their consequences for consumers, states, and the national interest in affordable energy, we request that each Ratings Agency take the following corrective actions:

1. **Explain ESG-driven downgrades.** Within 90 days, provide a written explanation of the specific, quantified financial (not ESG) basis for each maintained downgrade of fossil-fuel companies and states, or reverse all such ESG-driven downgrades.

²²⁹ https://treasurer.utah.gov/wp-content/uploads/04-21-22-Utah-Letter_SP-Global_ESG-Indicators.pdf (p. 3–5); [cache-2-7-27dfd49-7faf-42e7-93e7-a4882b1a8886-965d35c07722da76eedc3e80d873f89e9a8143da94b948e89ba4d718cb767d5b-idaho-letter-to-s-p-esg-credit-indicators-to-s-p-global-ratings.pdf](https://www.cache-2-7-27dfd49-7faf-42e7-93e7-a4882b1a8886-965d35c07722da76eedc3e80d873f89e9a8143da94b948e89ba4d718cb767d5b-idaho-letter-to-s-p-esg-credit-indicators-to-s-p-global-ratings.pdf) (p. 3); see <https://freedomhouse.org/explore-the-map?type=all&year=2025> (ranking the U.S. as “free” and Russia and China as “not free”); <https://epi.yale.edu/measure/2024/EPI> (ranking the U.S. far higher than Russia and China on environmental performance)

²³⁰ See, e.g., https://www.sec.gov/Archives/edgar/data/1652282/000110465925028114/tm2510327d1_ex99-e5.pdf (Fitch); <https://www.spglobal.com/ratings/en/credit-ratings/about/understanding-credit-ratings#use-of-ratings>; cf. <https://www.sec.gov/Archives/edgar/data/1698547/000119312526133970/d113944dex99e2nrsro.pdf> (Moody’s code of conduct is intended to secure “integrity” and “independence”)

²³¹ See, e.g., <https://www.spglobal.com/ratings/en/credit-ratings/about/understanding-credit-ratings#use-of-ratings>; S&P Global, *ESG Scores and Raw Data*, <https://www.spglobal.com/sustainable1/en/solutions/esg-scores-data>; <https://www.moodys.com/web/en/us/site-assets/moodys-esgview.pdf>; <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>

²³² <https://ratings.moodys.com/rmc-documents/361234> (p. 19, 29)

2. **Withdraw from or disclose ESG commitments.** Within 60 days, formally withdraw from UN PRI or, at minimum, disclose the PRI commitment as a material conflict of interest on Form NRSRO Exhibit 6.

3. **Revise sector-specific methodologies.** Publish revised sector-specific methodologies for oil and gas that either remove ESG transition-risk factors entirely or cabin them within a defined, evidence-based time horizon (e.g., three to five years of enacted policy, not speculative decades-long forecasts).

4. **Eliminate or disclose ESG consulting conflicts.** Cease offering ESG advisory and consulting services to entities whose credit ratings the agency also determines, or disclose this dual relationship as a conflict on Form NRSRO Exhibit 6.

5. **Certify internal controls review.** Provide a written certification from each agency's Chief Compliance Officer that internal controls have been reviewed and updated to prevent ESG commitments from influencing credit determinations.

Failure to take these corrective actions will inform the undersigned attorneys general's assessment of whether enforcement action under state UDAP laws, antitrust investigation, referral to the SEC's Office of Credit Ratings, or coordination with the U.S. Department of Justice is warranted. We also request responses to the following questions within 45 days.

IX. Questions for the Ratings Agencies

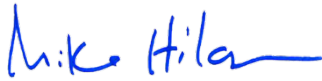
- 1) Your Ratings Agency claims that it will update its ratings as new information becomes available, in line with its methodologies. Explain why your Ratings Agency has not reversed downgrades of the fossil-fuel sector or fossil-fuel companies (the "Downgrades"), even when the Downgrades' core assumptions have been proven incorrect.
- 2) For each of the following predictions that your Ratings Agency made, explain whether your Ratings Agency agrees that this prediction was incorrect, and if so, why your Ratings Agency continues to maintain any Downgrades it still maintains.
 - a. Governments have not increased climate-change regulations as your Ratings Agency predicted— a "policy scenario of rapid low-carbon transition" (Fitch); the "emerging threat" of "future regulatory requirements" relating to climate change (Moody's); and "stricter policies and regulations" and "ambitious decarbonization targets" (S&P);—but instead largely have moved away from net-zero goals or failed to enact laws in line with those goals;
 - b. Fossil-fuel demand has not peaked as your Ratings Agency predicted—"lower demand forecasts" and "reduced global oil demand growth" (Fitch); "carbon transition risks" and a "lower-carbon economy" (Moody's); and "stranded assets" from a "peak hydrocarbon demand" date that will "continue to accelerate" (S&P);—but instead, the IEA now predicts that oil and gas demand and prices will grow through at least 2050 and that coal will be the leading electricity source through 2040;
 - c. Society has not adopted renewable energy as your Ratings Agency predicted—"lower demand forecasts" (Fitch); societal efforts to reduce carbon emissions"

- (Moody's); and "market share encroachment of renewable energy" and "increasing adoption and transition of renewable energy alternatives" (S&P);—but instead has largely rejected renewable-energy options such as EVs; and
- d. S&P: The "adoption of ESG investment mandates" has not grown as S&P predicted, but has reversed as net-zero alliances have dissolved, shareholder support for environmental proposals has collapsed, and ESG funds continue to see net outflows.
- 3) For each of the predictions in the prior question, explain why your Ratings Agency felt it had a sufficiently clear view of the future to make the prediction, based on the standard your Ratings Agency purports to use:
 - a. Fitch: ESG factors are only incorporated according to "the level of certainty with which we can predict these drivers will occur."
 - b. Moody's: "[W]e incorporate ESG considerations into ratings when we have visibility into those trends."
 - c. S&P: Financial forecasts are only provided for the period in which S&P has a "sufficiently clear view of an entity's potential financial performance."
 - 4) Explain why S&P claims that it incorporates ESG considerations "through the application of our sector-specific criteria" and does not list any ESG considerations in its sector-specific criteria for oil and gas or for mining, but relied on ESG considerations to create and maintain fossil-fuel-related downgrades.
 - 5) Section 15E of the Exchange Act requires NRSROs to disclose any conflict of interest relating to the issuance of credit ratings. Explain whether your Ratings Agency ever identified on Form NRSRO or any corresponding exhibit its ESG commitments (to the United Nations Principles for Responsible Investment ("UN PRI"), to the Net Zero Financial Services Providers Alliance ("NZFSPA"), or otherwise) as an actual or potential conflict, and if so, whether your Ratings Agency re-assessed any of the Downgrades or any other existing credit rating in light of this conflict.
 - 6) Your Ratings Agency has acknowledged that ESG issues are not always material. Explain why, in light of this admission, your Ratings Agency pledged to UN PRI that it would "incorporate ESG issues into ... decision-making processes" and would incorporate "ESG into credit ratings and analysis in a systematic and transparent way."
 - 7) Moody's/S&P: Explain why your Ratings Agency claimed to be "independent" or seeking to secure "independence" even though it had committed to "accelerate" and "achieve" net zero when joining the NZFSPA, and had promised to align "*all relevant services and products to achieve net zero greenhouse gas emissions by 2050 or sooner, scaling and mainstreaming Paris Agreement-alignment into the core of our business.*"
 - 8) S&P: Explain why S&P claimed to be "independent" even though it openly touted "our common goal of a resilient and sustainable future."
 - 9) Moody's: Explain why Moody's claimed to be seeking to secure "independence" even though it had announced its aim to "accelerate the flow of capital to support the transition to net-zero."
 - 10) Explain any changes to methodologies that you made after your Ratings Agency committed to UN PRI.
 - 11) Moody's/S&P: Explain any changes to methodologies that you made after your Ratings Agency committed to NZFSPA.

- 12) Explain how your Ratings Agency's UN PRI and/or NZFSPA commitments would not be material to your clients, and how those commitments do not change the "total mix" of information for any of your clients.
- 13) Explain what internal controls (if any) your Ratings Agency maintained to address each of the following issues:
 - a. Actual or potential conflicts related to your Ratings Agency's UN PRI commitment to incorporate ESG into its ratings.
 - b. Moody's/S&P: Actual or potential conflicts related to your Ratings Agency's NZFSPA commitment to "achieve net zero" in all of its products or services.
 - c. Actual or potential conflicts related to your Ratings Agency's pledge to align its financial decisions with "the future we want to see: a world where sustainable development is at the core of financial markets."
 - d. S&P: Actual or potential conflicts related to S&P's pledge to align its financial decision with "our common goal of a resilient and sustainable future."
 - e. Whether the lack of a time horizon and vague standards like "sufficiently clear" information (S&P), "the level of certainty" of predictability of ESG drivers (Fitch), or "visibility into ... trends" (Moody's) allowed your ratings to be "nudged" to align with your Ratings Agency's ESG goals.
 - f. Actual or potential conflicts related to your Ratings Agency's offering of ESG-related consulting services products while incorporating ESG into its credit ratings.
- 14) Fitch/S&P: Explain why you switched from limiting ESG factors to a set time horizon to adopting an unlimited time horizon, and provide any documents related to this change.
- 15) List all financial interests that your Ratings Agency's board members have in clean energy or renewable energy companies, or in increased emissions disclosures, including stock holdings or company roles.
- 16) List all public statements that your Ratings Agency's board members have made regarding ESG, including clean energy, renewable energy, or emissions disclosures.
- 17) Identify any actions, including ratings actions, that your Ratings Agency took based, in whole or in part, on the 2024 Kotz, Levermann, and Wenz article in Nature entitled "The economic commitment of climate change." For any actions identified in your answer, explain whether those actions have been reassessed or reversed in light of the article's retraction due to egregious errors.
- 18) The Ratings Agencies have also downgraded several fossil-fuel-producing states (the "State Downgrades") or characterized those states' connections to fossil fuels as a negative, despite the increasing demand for fossil fuels and the continued transition of federal policy in favor of fossil-fuel production. For each of the following predictions from the State Downgrades, explain whether your Ratings Agency agrees that this prediction was incorrect.
 - a. Fitch: Alaska faced risk of "more rapid acceleration of the transition from carbon-based fuels than currently anticipated."
 - b. Moody's: Alaska's "high reliance on [its] oil production industry" has not been a negative factor, since the IEA projects that oil and gas demand will grow through at least 2050 under current government policies.
 - c. S&P: The federal government has not "increas[ed] regulations of carbon emissions" as S&P predicted, and instead has decreased such regulations.

- d. S&P: The “accelerating energy transition to renewable energy” that S&P predicted has not occurred, and instead the energy transition has slowed or reversed.
- 19) For each of the predictions in the prior question, explain why your Ratings Agency felt it had a sufficiently clear view of the future to make the prediction, based on the standard your Ratings Agency purports to use:
- a. Fitch: ESG factors are only incorporated according to “the level of certainty with which we can predict these drivers will occur.”
 - b. Moody’s: “[W]e incorporate ESG considerations into ratings when we have visibility into those trends.”
 - c. S&P: Financial forecasts are only provided “for the period over which we believe we have a sufficiently clear view of an entity’s potential financial performance.”
- 20) Explain whether your Ratings Agency views state connections to fossil fuels as a negative, and if so, why, when the IEA projects that oil and gas demand and prices will continue to grow through 2050 and that coal will be the leading source of electricity through 2040.
- 21) S&P: Explain why S&P continues to weigh down ratings for fossil-fuel-producing states based on concerns about “shifting federal policy priorities.” If S&P’s reasoning is that the federal policy environment can shift rapidly, then explain why that shift was not a consideration in prior downgrades during the Biden Administration, when S&P predicted increased regulations.
- 22) S&P: Explain why S&P faults states for relying heavily on tax revenue from fossil fuels but also appears to fault states for not collecting taxes for fossil-fuel extraction.
- 23) Fitch/S&P: Explain why your Ratings Agency claims that its ratings are “independent” and “objective,” in light of each of the methodology departures and conflicts of interest discussed in the previous questions.
- 24) Moody’s: Explain why Moody’s claims that it seeks to secure “integrity” and “independence” in its ratings, in light of each of the methodology departures and conflicts of interest discussed in the previous questions.
- 25) Participants in the Net Zero Asset Managers initiative, which doubtlessly included clients of your Ratings Agency, previously promised to “[e]ngage with ... credit rating agencies ... to ensure that products and services available to investors are consistent with the aim of achieving global net zero emissions by 2050 or sooner.”
- a. Did any of your clients engage with your Ratings Agency on whether its ratings products or services were consistent with net-zero goals?
 - i. If so, why did your Ratings Agency not disclose this conflict of interest on Form NRSRO Exhibit 6?
- 26) For each fossil-fuel company your Ratings Agency has downgraded based in whole or in part on ESG factors, provide a side-by-side comparison of that company’s key financial metrics (debt-to-capital ratio, interest coverage ratio, free cash flow, and debt-to-EBITDA) against the financial metrics of comparably rated or higher-rated companies in other sectors. Explain any instances in which a downgraded fossil-fuel company’s financial metrics equal or exceed those of a higher-rated company in another sector.
- 27) State what percentage of your Ratings Agency’s total revenue is derived from ESG-related products and services, and how that percentage has changed since your Ratings Agency signed the UN PRI Statement on ESG in Credit Risk and Ratings.

Sincerely,



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Nebraska Attorney General



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James Uthmeier
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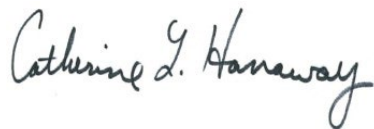
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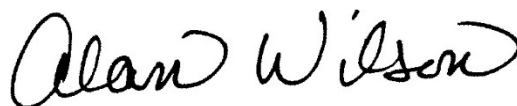
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