

Brussels, 18/03/2019

Finance Watch is an independent non-profit Members' association set up in 2011 to act as a public interest counterweight to the powerful financial lobby. Our mission is to strengthen the voice of society in the reform of financial regulation by conducting advocacy and presenting public interest arguments to lawmakers and citizens. Our Members are civil society organizations and expert individuals, supported by a full-time secretariat.

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We agree to the publication of this response.

Q1 Do you agree with the proposed Guidelines for press releases that accompany credit ratings or rating outlooks? If not, please explain.

Finance Watch agrees with the proposed Guidelines for press releases that accompany credit rating or rating outlooks. However, we believe that ESMA should also propose some minimum standards for the format of disclosure, which would help users to conduct their own due diligence and understand the characteristics of the rating. In other words, the disclosure requirement should not only concern the number of pieces of information that should be disclosed but also the way ("*a basic standard format*"), according to which those pieces of information shall be provided.

Moreover, the CRA should disclose how any potential conflict of interest is dealt with and which entity has paid for the rating.

Q2 Do you agree that a standardised scheme indicating the rated entities level of participation would be beneficial? Do you have any comments on the proposed standardised scheme?

We agree with the proposed scheme.

Q3 Do you have any comments on specific items under this section? If yes please explain with reference to the proposed item's number

Regarding item number 35, it would be important that CRAs disclose not only the methodology itself but how exactly the application of that methodology has led to a certain rating. This piece of information would enable users to better conduct their own due diligence.

Q4 Do you have any comments on the proposed Guidelines under this section?

Firstly, we would like to highlight that according to the article 8 of the Regulation (EC) No 1060/2009, the rating should be based on all available information that is relevant to its analysis according to the applicable rating methodologies. In this sense we understand ESMA's recognition that ESG factors may not be a key underlying element of a credit rating action, if CRA does not consider them relevant according to the applicable methodology.

However, the article 8(3) also says that the methodology used by CRA needs to be rigorous, which means it needs to be detailed enough to allow the CRA to come up with a thorough opinion on the creditworthiness of the entity being rated. Moreover, on the basis of the article 8(5), the credit rating

agency shall monitor credit ratings and methodologies on an ongoing basis, in particular where material changes occur that could have an impact on a credit rating.

From the above, it follows that the guidelines should make explicit the requirement that CRAs shall also review their methodology in view of assessing whether ESG factors are relevant and should be included in the methodology. Alternatively said, it should be clear that whenever ESG factors are a relevant variable in the valuation model of the creditworthiness they should be included.

For example, in line with TCFD recommendations both financial and non-financial institutions should disclose how they manage climate related risks and opportunities under different climate scenarios, and one of those should be the two-degree scenario.

While we understand the numerous sources of uncertainties in that type of analysis, given the existence of different two-degree scenarios, we however believe that **the guidelines should make clear that a methodology that does not consider climate change risks cannot be considered rigorous and systematic in accordance with article 8(3).**

Q5 Are there any additional actions that CRAs could take to improve the disclosure of the consideration of ESG factors?

With regard to the proposed text, Finance Watch recommends the following amendments:

With regard to the disclosure as to whether and how ESG factors were considered as key underlying elements of a credit rating issuance in accordance with Article 10(1), 10(2) and Section D, Annex I, I, points 2a and 5, CRAs should:

i. Include a direct web-link at the bottom of each credit rating press release to the section of that CRA's website that includes guidance explaining how ESG factors are considered as part of that CRA's credit ratings. [Annex I Section D, I, 2a] **and how their consideration impacted each credit rating.**

ii. Outline in the press release whether any of the key underlying elements of the credit rating issuance correspond to that CRA's categorisation of ESG factors.[Annex I, Section D, I, 5]

- a. Where ESG factors were not a key underlying element of the credit rating, the CRA should include a **detailed explanation** in this regard, **which should provide information on why ESG factors were not relevant for the credit rating**
- b. Where ESG factors were a key underlying element of a credit rating, the CRA should clearly **identify** whether the factor or factors referred to **are** either Environmental, Social or Governance factors. [Annex I, Section D, I, 5]. **CRA should explain how each of the ESG factors considered impacted the credit rating.**

We would like to recall that many lessons should have been learned from the subprime crisis which clearly showed the dangers of relying on external opinions that disincentivize due diligence by investors. It is therefore of outmost importance to ensure in first place the maximum transparency of the rating to allow the users to do their own due diligence and promote measures which decrease the reliance on external opinions.