



## **ESMA's consultation on Guidelines on Disclosure Requirements Applicable to Credit Ratings.**

### ADVICE to ESMA

#### 1. General comments

1. The SMSG supports the work undertaken by ESMA regarding Credit Ratings Disclosures.
2. The SMSG is concerned by ESMA's assessment of current inconsistent practices among CRAs regarding disclosure. It seems in particular that CRAs are not always compliant with Article 13 of the CRA. ESMA highlights that press releases should be accessible without any barrier to entry or registration requirements.
3. The SMSG believes that, although ESG factors are long term in nature and do not immediately impact solvency, they might play a significant role in the ability of debtors to reimburse their liabilities. The combined analysis of ESG and classic financial factors may highlight the contradictions in the business and financial assumptions.
4. As mentioned in its February 2019 advice to ESMA<sup>1</sup>, the SMSG notes that the lack of agreed definitions and labels at the EU level is a substantial shortcoming and seriously hampers the implementation of a harmonized approach to sustainable finance. This should, however, not prevent firms from making progress in order to incorporate sustainability risks and factors but should be taken into account by regulators and supervisors.

#### 2. Response to consultation (19 December 2018 | ESMA 33-9-290)

##### 2.1. Disclosure Requirements for Credit Rating Press Releases

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

5. Yes, the SMSG agrees with the proposed guidelines. The guidelines identify the important information and highlights that references to information, such as a description of rating category and methodology, should be easily accessible through links to specific sections rather than to a general website.

**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?**

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<sup>1</sup> ESMA Consultation Papers On integrating sustainability risks and factors in MIFID, the UCITS Directive and AIFMD.

6. The SMSG believes that standardization of information and presentation will also more generally be beneficial for users of credit rating information. In the mean while, the SMSG agrees with the standardised scheme. The SMSG, however, also believes that CRAs should be able to comment on the level of participation.

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

7. As mentioned in paragraph 13 of the introduction of the consultation, we believe that the methodology (guideline vi) and definition of rating category (guideline viii) should be easily accessible through a link accessible without barrier or registration. The titles and versions of these methodology and definition documents should be explicitly mentioned.
8. The SMSG notes that in respect of endorsement of ratings the draft guidelines require a "statement", whereas in respect of unsolicited ratings a "clear statement" is required. We suggest to add the adjective "clear" also in respect of the statement on endorsement.

## 2.2. Environmental, Social and Governance Factors under the CRA Regulation

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

9. The SMSG wants to stress the obvious difference between the purpose of a credit rating – assessing creditworthiness – and the purpose of an ESG rating – assessing sustainability. While the SMSG recognizes that ESG factors may in certain cases clearly influence the creditworthiness of a company, this is not always the case and will very often not be a "key element" of the underlying rating.
10. The SMSG has the impression that ESMA actually wants CRAs to include ESG factors in their rating methodologies, so that even if such factors do not have any influence on the creditworthiness of a company / product in a certain case, ESG factors have at least in all cases been considered. The SMSG is of the opinion that this is indeed the adequate way forward. If this is indeed also ESMA's intention, this should be clearly stated. If this is, however, not ESMA's intention, guideline 8 i should be adapted as follows: *"CRAs should 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, if any"*.
11. As mentioned in its February 2019 advice to ESMA<sup>2</sup>, the SMSG wants to stress that the lack of agreed definitions and labels at the EU level is a substantial shortcoming and seriously hampers the implementation of a harmonized approach to sustainable finance. In respect of disclosure requirements in regard of credit ratings, this problem is equally urgent. Even though the proposed guidelines would

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<sup>2</sup> ESMA Consultation Papers On integrating sustainability risks and factors in MIFID, the UCITS Directive and AIFMD (ESMA22-106-1683, 6 March 2019).

increase transparency on the impact of ESG factors on credit ratings, such disclosure is only meaningful if investors can also trust that the ESG factors / scale / taxonomy used by the CRA is reliable.

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

12. We believe that ESMA's proposed guidelines are adequate until the EU taxonomy is defined.

This advice will be published on the Securities and Markets Stakeholder Group section of ESMA's website.

Adopted on 28 March 2019

[signed]

Veerle Colaert

Chair

Securities and Markets Stakeholder Group