



# Agences de notation : un cadre réglementaire élargi à l'ESG

Quels cadres de supervision pour la notation de crédit et extra-financière ?

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# ESMA's Role as Supervisor of CRAs

- ❑ **ESMA is the single supervisor for EU Credit Rating Agencies**
- ❑ Over 10 years of experience implementing CRA Regulation
- ❑ Currently supervising 23 CRAs across 13 EU Member States

- ❑ **Supervisory toolbox**

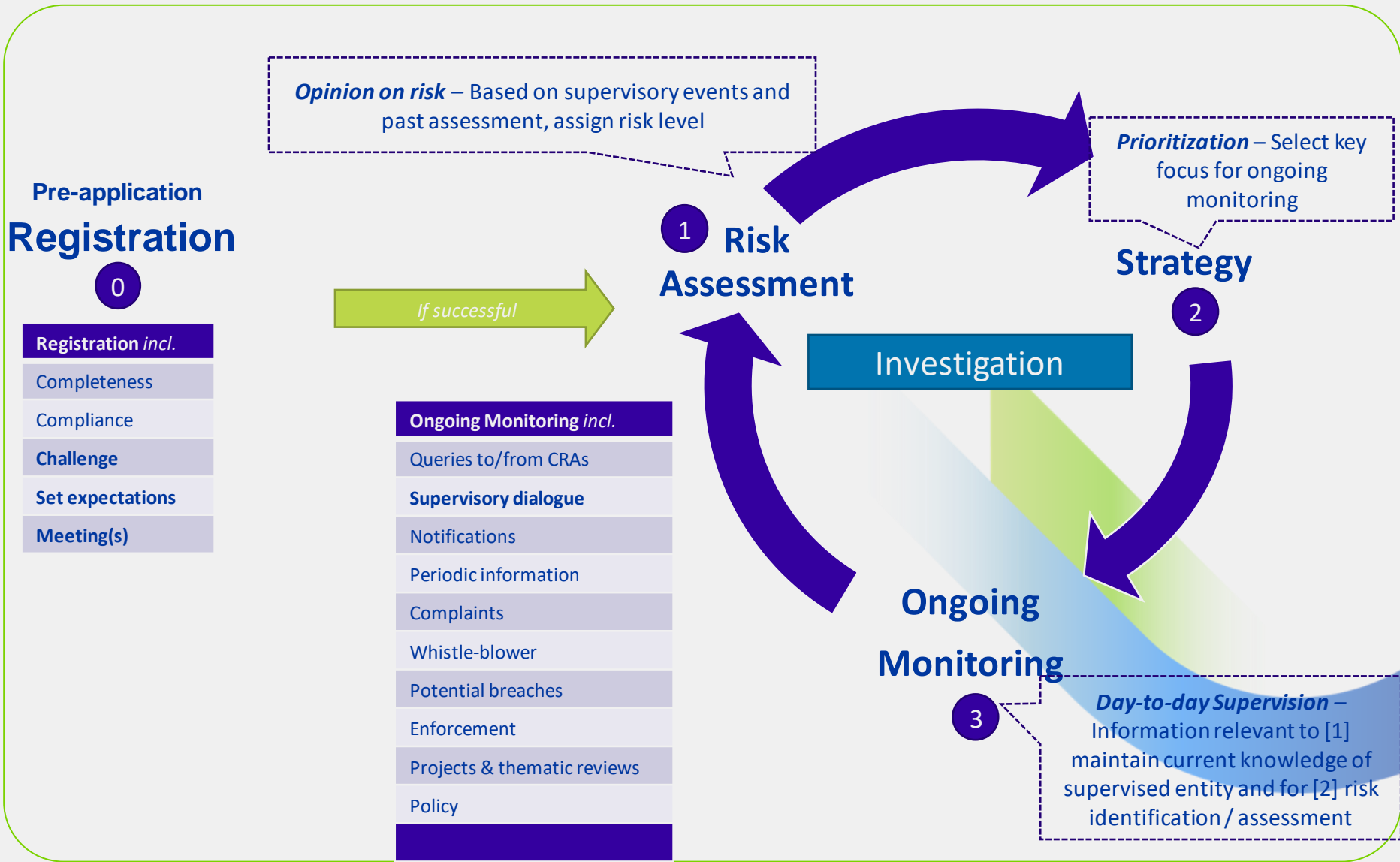
## **Hard tools**

- Request for information
- Investigations, including on-site inspections
- Enforcement

## **Soft tools**

- Dear CEO letters
- Policy instruments: Guidelines, Q&As
- Bilateral interactions
- Roundtables

# CRA supervisory activities



# ESMA Supervisory Approach



## Risk Based

Assessment at both industry and entity level

Risk assessment process to identify areas of greatest harm

We apply an Entity Supervisory Importance metric reflecting inherent factors such as entity size, market share/penetration, complexity of organization.



## Outcome-focussed

We choose interventions that are effective and have proportionate effect

We focus on expectations and identify success measures to assess whether the determined outcome has been achieved.



## Data-Driven

We identify structural sources of data that can be embedded into its risk-based approach particularly forward-looking indicators of market trends.

# Risk areas in CRA supervision



- CRAR includes requirements relating to the disclosure and presentation of credit ratings (Article 10(1), 10(2) and Section D, Annex I, 1, points 2a and 5)
- Guidelines targeted at improving the quality and consistency of the information disclosed in credit rating press releases
- Additional goal of the Guidelines is to ensure greater transparency when considering ESG factors
- Where ESG factors are a key driver behind a rating or outlook change, press release or report should disclose :

the ESG key drivers;  
explain why they were material;  
include a link to the ESG methodology.

# ESMA's review on the disclosures of ESG factors and their incorporation in methodologies



## Assessment on the disclosure of ESG factors in CRAs' press releases

- assessment the sustainability of 64,000 rating agency press releases
- overall level of CRAs disclosures on the relevance of ESG factors has increased since the introduction of the Guidelines
- still high level of divergence across CRAs' disclosures (especially on environmental topics)

## Review on the incorporation of ESG factors in methodologies

- divergence in the degree of rigorousness in which ESG factors have been incorporated in methodologies
- divergence in the systematic consideration of ESG factors in the rating process
- slow progress in incorporating and systematically apply ESG factors in the rating process



# ESG Ratings – Starting Point



ESMA has been monitoring this market segment



Recognise that credit ratings and ESG ratings are different products with different objectives:

ESG ratings can have a wide variety of measurement objectives.

Can be developed according to very different methodological approaches & rating approaches.

Can be based on public info, private info or a combination of the two.



However, the problems that users of ESG ratings are experiencing are similar to those experienced with credit ratings in the past:

Inconsistent levels of transparency around methodologies

No oversight to ensure quality or rigour of methodologies

No legally binding protections against potential conflicts of interest



Lessons learned from credit ratings can inform our approaches to regulating ESG ratings.



Nonetheless recognise that ESG ratings do not have the same systemic impact of credit ratings

# ESG Ratings – Way Forward

- ❑ In 2021, **ESMA** publicly called for regulatory intervention and co-led **IOSCO** work to set recommendations for ESG rating and data providers.
- ❑ Multiple jurisdictions (**UK, Japan, India**) are now taking steps to increase oversight of ESG rating and data providers.
- ❑ For **ESMA**, it is important that all approaches:
  - Maintain alignment with IOSCO good practices, to the extent possible.
  - Avoid disruption to rating coverage.
  - Remain proportionate to encourage innovation and support market entry.
- ❑ We look forward to the **EU** taking further steps to ensure:
  - Providers are subject to registration and oversight.
  - Methodologies are transparent and of good quality.
  - Users can select the ESG rating that is most suitable for their needs.
  - Investors have assurance that ESG ratings are reliable and of good quality.
  - Comparability increases clarity.
  - Diversity of opinions is maintained.
  - The supervisory regime is proportionate to the role of ESG ratings in markets



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