

ESMA advises on credit rating sustainability issues and sets disclosure requirements

ESMA, in its advice, has assessed the level of consideration of Environmental, Social and Governance (ESG) factors in both specific credit rating actions, and the credit rating market in general. It found that, while credit rating agencies (CRAs) are considering ESG factors in their ratings, the extent of their consideration can vary significantly across asset classes, according to each CRA's methodology.

However, given the specific role that credit ratings have in the EU regulatory framework for the purposes of assessing credit risk, it would be inadvisable to amend the CRA Regulation to explicitly mandate the consideration of sustainability characteristics in all rating assessments. Instead, ESMA proposes that the European Commission assesses whether there are sufficient regulatory safeguards in place for other products that will meet the demand for pure sustainability assessments.

Steven Maijoor, Chair, said:

"Climate change is a reality. Financial market regulation needs to reflect this by integrating sustainability considerations. To support the European Commission in this area we have advised on the level of sustainability considerations in the credit rating market, indicating that as demand for sustainability assessments increases, so does the need for vigilance on the levels of investor protection.

"We have also issued guidelines to CRAs to ensure greater transparency around where ESG factors are considered in CRAs' credit assessments."

CRAs need to harmonise disclosure of ESG considerations

The guidelines on disclosure requirements for credit ratings are intended to improve the overall quality and consistency of CRAs' press releases related to their rating activity. The guidelines:

- provide detailed guidance as to what CRAs should disclose when they issue a credit rating. This will ensure a better level of consistency in terms of the critical information included in CRAs' press releases; and
- require greater transparency around whether ESG factors were a key driver of the credit rating action. This will allow the users of ratings to better assess where ESG factors are affecting credit rating actions.