

Consultation Paper on possible amendments to the Credit Rating Agencies Regulatory Framework

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1. – Target participants

Credit Rating Agencies (CRAs) registered to issue credit ratings and rating outlooks in the EU, and firms considering registration as CRAs. This Consultation Paper should also be of interest to public institutions, users of credit ratings, issuers, investors, and other stakeholders such as industry bodies or trade associations.

2. - Information Note

In June 2023, the European Commission requested ESMA's input on how the Delegated Act and the Annex of the CRA Regulation could be amended to ensure that relevant ESG risks are systematically captured in credit ratings and to improve transparency on the inclusion of ESG risks by CRAs in credit ratings and rating outlooks.

This consultation paper provides ESMA's proposals to integrate ESG factors in:

- Commission Delegated Regulation (EU) No 447/2012.
- Annex I of CRAs Regulation.

Contents: ESMA's proposed advice to the European Commission is outlined in Sections 6-7 of the consultation paper. The advice is structured to provide both ESMA's proposed revisions and the accompanying rationale.

The suggested revisions to the Delegated Act and the Annex build on several prior steps taken by ESMA, specifically on its Guidelines on Disclosures applicable to Credit Ratings (and the assessment on its implementation), and the thematic review on the integration of ESG factors in CRAs' methodologies.

3. Delegated Act on Methodologies:

ESMA proposes revisions to add explicit reference to the identification of ESG factors within credit rating methodologies. In this vein, the following amendments are suggested:

1.- **Inclusion of "ratings outlooks"** wherever the term "credit rating" is used. The relevance of rating outlooks for investors and issuers and their effects on markets are comparable to the relevance and effects of credit ratings; as a result "all the requirements of Regulation (EC) No 1060/2009 which aim at ensuring that ratings are accurate, transparent and free from conflicts of interest should also apply to rating outlooks".

2.- **Clarification of the term “methodology”** to ensure that CRAs understand which elements that contribute to the methodological process are considered to fall within the scope of the Delegated Act. ESMA proposes a sufficiently encompassing definition for ‘methodology’ to ensure that all documents that contribute to a CRAs’ creditworthiness assessment are subject to the relevant safeguards provided by the CRA Regulation. ESMA proposed definition is the following: “For the purpose of this regulation, a credit rating methodology is the framework that contributes to the determination of a credit rating and rating outlooks. It includes criteria, models, driving factors and key rating assumptions relevant to the creditworthiness assessment.”

3. **Changes to Article 4 (2), and (3) to ensure integration of ESG factors and to clarify the information to be included in a methodology.**

5. **Changes to Article 5 to ensure sufficient detail in methodologies.**

6. **Changes to Article 6 to integrate reference to ‘rating outlooks’.**

7. **Changes to Article 7 to ensure allocation of responsibility for validation.**

4. Proposed changes to Annex I of the CRA Regulation

The objective is to ensure that the transparency provisions that were introduced by ESMA’s Guidelines on Disclosure are integrated into the CRA Regulation itself, which will place these provisions on a stronger legal footing. This should lead to a more consistent outcome of disclosure. In addition, ESMA’s aims to improve transparency around CRA’s validation process and deliver clarity as to the internal responsibility for this process.

- Annex I contains the summary of questions
- Annex II contains the legislative mandate to develop technical standards
- Annex III contains a cost-benefit analysis
- Annex IV contains the Proposed Delegated Regulation amending Commission Delegated Regulation (EU) No 447/2012
- Annex V contains the Proposed Amendments to Annex I of CRA Regulation

5. - Submission of comments

ESMA invites comments on all matters in this paper and in particular on the specific questions summarised in Annex 1. Comments are most helpful if they:

- Respond to the question stated;
- Indicate the specific question to which the comment relates;
- Contain a clear rationale; and
- Describe any alternatives ESMA should consider.

ESMA will consider all comments received by **21 June 2024**. All contributions should be submitted online at www.esma.europa.eu under the heading ‘Your input - Consultations’.

Likewise, please send a copy of your answers to the CNMV to the following email address: documentosinternacional@cnmv.es or to the following mail address:

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