TARGETED CONSULTATION ON THE FUNCTIONING OF THE ESG RATINGS MARKET IN THE EU

Amundi's Response to the European Commission's Consultation Paper [4 April - 6 June 2022]

Amundi is the European largest asset manager by assets under management and ranks in the top 10 globally. It manages 2,064 billion euros[1] of assets across six main investment hubs in Boston, Dublin, London, Milan, Paris and Tokyo. Amundi offers its clients in Europe, Asia-Pacific, the Middle East and the Americas a wealth of market expertise and a full range of capabilities across the active, passive and real assets investment universes. Clients also have access to a complete set of services and tools. Headquartered in Paris, Amundi was listed in November 2015.

EXECUTIVE SUMMARY

Amundi welcomes the opportunity to respond to this EU consultation given the increasing importance of ESG Ratings and Data across the whole investment management value chain, from the rated company to the very-end investor.

Our context:

<u>The increasing importance of ESG ratings</u>

In our asset management business, **ESG ratings are key for investment decisions**, not only for our own investment process, but also due to the growing number of requests from clients to use ESG ratings provided by few large vendors as **market standards** and "quasi-label".

<u>The importance of ESG data : they should not be dissociated from ESG Ratings</u>

First, **ESG data are sourcing the ESG ratings: unreliable data lead to unreliable ratings**. Second, they are paramount for financial market participants to meet **increasing regulatory requirements** and mitigate greenwashing risk. Even if the EU Taxonomy regulation and, later, the CSRD will extend the scope of audited data and of reporting companies, it will take time and the coverage will still be partial compared to our universe of investments. ESG data vendors are instrumental in filling this data gap. This consultation focuses on ESG ratings but should encompass ESG data.

As a result, the reliability and coverage of ESG ratings AND ESG data is key for orderly markets, financial stability and investor protection.

Our perception of the major areas of progress to improve the functioning of the ESG ratings and data market:

<u>Improve the **transparency, readability, and comparability** of the rating methodologies and of the data sourcing and estimation process</u>

We appreciate the fact that rating methodologies (assumptions, criteria, …) can differ across providers but we need to be duly informed of the ESG ratings objective, scope and methodology so as to

[1] Figures end 2021

elaborate our own assessment, be able to compare ratings, identify significant potential biases versus our standards, dialogue with the providers,…

More transparency is also needed on ESG data, whether they source the rating or whether they are directly provided to users. In particular with regards to data collection process and methodologies for estimates.

Improve **accountability and responsibility** of ESG ratings and data providers to increase **reliability** and **implement robust control and governance frameworks**

The absence of regulatory framework, the potential conflicts of interests which can arise in the rating industry, combined with the power of large providers to impose their contractual terms and conditions, makes it difficult to ensure best practices are applied and conflicts of interest are managed.

Address the issues stemming from the current oligopolistic situation of the ESG rating and ESG data market around few large players:

- Pricing, licensing and contractual framework- we call for :
  - Contractual commercial terms to be established on a fair, reasonable, non-discriminatory and transparent (**FRANDT**) basis
  - **Transparency on fees and licensing** terms, and public statistics thereof
- Allow **smaller players** to enter the market as they can foster innovative and attractive offers
- **Open the market** as much as possible, to maintain a diversity of opinions, and extend coverage
- In addition, this oligopolistic situation being concentrated in non EU (mostly anglo-saxon) countries, we believe that the **EU sovereignty** should be preserved and non EU providers should abide to EU standard levels as would EU providers.

On this basis, we believe only an EU legislative intervention can be sufficiently impactful to foster progress and increase trust in the ESG ratings and data space

How we believe an EU legislative initiative could efficiently operate

Credit Rating Agencies (CRA) are currently subject to an EU regulation and we see no reason why ESG Ratings and Data vendors would not be subject to a similar treatment.

More generally, to improve the functioning of the market, we believe an EU regulation should :

- Provide a solid and level playing field framework of transparency, accountability and organizational requirements addressing the areas of progress listed above. The purpose is *not* to define methodological requirements but to require transparency and reliability,
- Require the registration/authorization of both ESG ratings agencies and ESG data vendors, whatever their current location as long as they serve EU users,
- Provide proportionate regime for small players.

Actually, we believe it would be even more beneficial to adopt an holistic regulatory framework which would encompass ratings and data services at large, covering financial and non-financial, data, ratings, benchmarks, …