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Vigeo Eiris' contribution to the High Level Expert Group (HLEG) interim report on Sustainable Finance established by the European Commission

Dear Mister Thimann,

It is with great interest that we have read the interim report published on July 13th by the High Level Expert Group (HLEG), which aims to promote collective thinking on sustainable and responsible finance. We consider that this initiative addresses a major need in clarifying and reinforcing the role of finance to achieve economic growth, as well as sustainable human and environmental development.

However, we note a key omission in the report, one that we view as essential to the analysis of the value chain of sustainable finance, as presented in the HLEG report – there is no reference to the role of social responsibility rating agencies. Yet their role is crucial and distinct for credit rating agencies.

Collecting and analysing information on companies' ESG (human capital, human rights, business behaviour, environment, governance, community involvement) risks, opportunities, and performance are essential to ensure market efficiency, an optimal allocation of capital and the reduction of information asymmetry.

Yet, the interim report published by the HLEG seems to overlook this segment of the value chain, as well as the issues associated with the analysis and the rating of companies' social, environment and governance-related behaviour. It only identifies credit rating agencies as potential contributors to the improvement of market functioning and sustainable finance.

From our point of view, this vision creates confusion and misses an opportunity.

In reality, ESG rating agencies such as Vigeo Eiris have historically been the first interface between investors and companies. These agencies play a unique, decisive and irreplaceable role in identifying ESG factors as sustainability levers, therefore enabling financial operators to integrate and take into account sustainability-related risks. Indeed, ESG rating agencies assess companies' future capacity to create value and they evaluate long term sustainability-related risks, taking into account the value of intangible assets whereas credit rating agencies focus on assessing solvency risks measured based on financial ratios with short term objectives.

We therefore recommend that the HLEG enhance its analysis in order to:

- Explicitly define the value chain of sustainable finance in a more detailed manner to highlight and recognise the role, mission and function associated with every link of this chain, including differentiating between the specific role and contribution of ESG and credit risk-related ratings.
- Highlight the responsibilities specific to the different links of the value chain in order to formulate clear principles defining the commitments, processes, means and mechanisms that each should employ and implement, in order to contribute efficiently to the objectives of sustainable finance.

Vigeo Eiris is willing to contribute fully to the development and success of the High Level Expert Group initiative (HLEG). We thank you in advance for your interest in the issues raised in this letter.

Please accept our most cordial greetings.

Nicole Notat

President, Vigeo Eiris

Fouad Benseddik

Director of Institutional Affairs
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