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European Commission
Banking and Finance division
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Vigeo Eiris' contribution to the European Commission's public consultation on institutional investors and asset managers' duties regarding sustainability.

Vigeo Eiris welcomes the opportunity to submit a response to the European Commission's public consultation on the fiduciary duties of institutional investors and asset managers with regard to sustainability. In recent years, sustainability (also refered as "ESG" for environmental, social and governance) factors have increasingly been at the forefront of corporate scandals and failures, questioning companies' risk management systems and challenging decisions of asset owners and managers. The ESG ratings of companies and countries are evolving from being the outlook of a very responsible socially minded few to becoming a mainstream consideration in the financial analysis of company performance and a country's ability to achieve sustainable economic growth. As one of the forerunners of ESG analysis and rating of companies, Vigeo Eiris advocates since many years the importance that ESG factors play in the investment process. We consider that all the participants in the sustainable finance chain have specific duties to perform and fulfil.

Historically, investment due diligence was based on assessing the issuers' creditworthiness. Now, assessing the capacity of issuers to mitigate risks and seize opportunities with regard to ESG is a reflection of their ability to innovate in order to secure higher returns for those invested in them. Alongside credit ratings, ESG ratings are an integral part of company performance analysis, however the two assessments should not be confused or seen as interchangeable. Both are serving specifics and inter-connected purposes. While credit ratings can enhance the systematic integration of ESG factors in credit risk analysis, ESG ratings help investors integrate ESG risks and opportunities within their portfolios. Therefore, recognizing the shared added value but also the differences between the two types of ratings can help achieve a balanced representation of company performance analysis.

Vigeo Eiris believes the European Commission is in a unique position to help define a European standard for supporting the development of sustainable finance. ESG rating agencies are well placed to contribute to reducing the market data's asymmetry and create a level playing field for ESG disclosure across sectors and geographies. By developing and sustaining robust methodologies, ESG rating agencies can help promote higher ESG disclosure and greater corporate accountability, as well as contribute to investment security, innovation and higher returns. In this regard, Vigeo Eiris would also like to take the opportunity to recall our reaction in response to the July 2017 Interim Report by the High-Level Expert Group (HLEG) on Sustainable Finance, and stress the need to fully recognize the role of ESG rating agencies in the sustainable finance chain. We are willing to work with HLEG to address the current gap by integrating the impact that ESG rating agencies have as participants and contributors to a sustainable financial system.

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In response to the consultation convened to clarify the duties of the relevant stakeholders regarding sustainability, Vigeo Eiris would recommend the European Commission to consider the following:

1 – Recognize the specificity of the analysis carried out by dedicated and independent ESG rating agencies as well as the interaction between the different actors in the value chain of sustainable finance: Research and data analysis of the corporate risks, opportunities, and performance with regard to ESG (by which we extensively understand human capital, human rights, business behaviour, environment, governance, community involvement) are essential to ensure market efficiency, an optimal allocation of capital and support the availability of information. ESG rating agencies therefore are an interface between issuers and investors essential in providing specific ESG information and analysis that help the latter contribute to the development of sustainable financial markets. In our view, all investors need to consider the integration of non-financial data into the investment process in order to mitigate the risks and manage the opportunities that can have a material impact on the overall performance of the companies they invest in. ESG data and analysis can help all types of investors achieve long-term returns and as such the important role of ESG rating agencies should be acknowledged in this context.

2 – Encourage listed and non-listed companies to seek dedicated and independent ESG rating, alongside credit rating: ESG rating agencies are able to assess, qualify and score ESG factors as sustainability drivers, therefore enabling financial operators to integrate and take into account sustainability-related risks. ESG rating is independent from yet complementary to credit rating because it provides specific and additional information to investors about the performance of the companies they are invested in. An in-depth and full assessment of corporate sustainability requires specific methodology and tools, which differ from the evaluation process conducted by credit rating agencies. ESG rating agencies assess the future capacity of companies to create value and their long-term sustainability-related risks, including the value of intangible assets, whereas credit rating agencies focus on the assessment of solvency risks that are measured based on financial ratios generally with short-term objectives. All the actors in the value chain of sustainable finance should be encouraged to recognize the value as well as the difference between ESG ratings and credit ratings, with both being necessary for sound investment decisions.

3 – Support the disclosure of issuers' ESG rating, in addition to their financial rating: On 11th December 2017, a day before the One Planet Summit in Paris, a group of major investors, asset managers and insurers issued a joint statement[1] to recognize the crucial role and promote a wider application of ESG ratings. They insisted on the need for issuers to be accountable for their sustainability performance and therefore to disclose their ESG ratings, in addition to their financial ratings. We hold the view that the disclosure of ESG ratings will have a positive impact on both companies and investors and add value to the investment life-cycle. The disclosure of ESG ratings can also lead to developing a responsible business conduct framework for all the actors in the sustainable finance value chain, as well as creating incentives for a greater integration of sustainability impacts in all types of investment products.

[1] http://www.vigeo-eiris.com/vigeo-eiris-hails-initiative-financial-actors-recognising-materiality-usefulness-extra-financial-rating/

To summarise, we encourage the European Commission to show leadership in this field and explain the investment cycle and the specific role of ESG rating agencies in the value chain of sustainable finance. More specifically, we would welcome the European Commission to include the following items in its future statement:

- The EC recognizes and supports the recent developments on the sustainable finance market with regard to the rating of issuers' ability to integrate environmental, social and governance factors, including a re-positioning of the S (i.e. human rights, due diligence, standards in the supply chain etc.) in the ESG analysis of corporate and investment performance.

- The EC acknowledges and encourages the fundamental role played by ESG risk and performance ratings to the positive development of sustainable finance in Europe over the past 15 years. ESG ratings attain wider reach among institutional investors and asset owners, making the growth of sustainable and socially responsible investment practices possible at global scale.

- The EC acknowledges and supports the declaration issued by major European investors on December 11th, 2017, which highlights the value of ESG ratings and calls for the disclosure of issuers' ESG ratings.

Vigeo Eiris is willing to fully contribute to the development of sustainable finance as well as to the process of defining clear and shared duties for institutional investors and asset managers regarding sustainability. We thank you in advance for your interest in the issues raised in this letter.

Please accept our most cordial greetings.

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