Barclays Response to HM Treasury's Future Regulatory Regime for Environmental, Social, and Governance (ESG) Ratings Providers Consultation

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Barclays is a universal consumer and wholesale bank with global reach, offering products and services across personal, corporate and investment banking, credit cards and wealth management. With over 330 years of history and expertise in banking, Barclays operates in over 40 countries and employs approximately 85,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

Addressing climate change is an urgent and complex challenge. It requires a fundamental transformation of the global economy, so that society stops adding to the total amount of greenhouse gases in the atmosphere. The financial sector has a critical role to play in supporting the economy to reach this goal. The final decision text from COP27 stated that $4 trillion per year[1] needs to be invested in renewables to be able to reach net zero emissions by 2050 and furthermore, a global transformation to a low-carbon economy is expected to require investments of between $4-6 trillion per year.[2]

At Barclays, we are determined to play our part. We believe that we can, and should, make a positive difference for society - globally and locally. In March 2020, we announced our ambition to be a net zero bank by 2050, becoming one of the first banks to do so. In December 2022 we announced a new target to facilitate $1 trillion of Sustainable and Transition Financing between 2023 and the end of 2030.[3]

Executive Summary

We welcome the opportunity to respond to HM Treasury's Future Regulatory Regime for Environmental, Social, and Governance (ESG) Ratings Providers Consultation (the Consultation).

As investors' focus on ESG matters continues to increase and the markets require increasing volumes of data to comply with sustainability disclosures regulatory requirements, the use of ESG ratings is having an increasingly important impact on the operation of capital markets. As HM Treasury has identified, despite their ever-increasing importance, there are significant challenges related to a lack of transparency on i) the sourcing of ESG data; ii) the methodologies used in the calculation of the ESG rating; and iii) the intended use of the ESG rating (e.g., measuring ESG risk or sustainability impact). These issues lead to poor correlation between ESG ratings and to confusion among users.

As ESG investing becomes more common, these shortcomings could become a clear and present risk, potentially causing distortions in the capital allocation process. To that end, **Barclays strongly considers that ESG ratings and data product providers should be brought into the regulatory perimeter.**

We further recommend that:

- Only providers that are able to take reasonable steps to provide sufficient levels of quality and accuracy of their product should participate within the market.
- Regulatory intervention should be consistent with IOSCO's recommendations for securities markets regulators[4].

[1] https://unfccc.int/documents/624444
[2] https://www.unep.org/resources/emissions-gap-report-2022
[3] https://home.barclays/news/press-releases/2022/12/barclays-significantly-increases-sustainable-finance/
[4] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf

- Government and the Financial Conduct Authority (FCA) work closely with other jurisdictions that are also considering intervention to avoid regulatory fragmentation.
- The FCA review the application and use cases of ESG ratings in three years, and at regular intervals subsequently, as the market matures.
- HM Treasury reconsiders its approach to exclude not-for-profits and proxy advisor services from the scope of regulation.
- Investment research products, such as equity and fixed income currencies and commodities research reports, should be excluded from the forthcoming rules as HM Treasury has proposed.
- The collection and assessment of ESG controversies should be considered by HM Treasury.
- While ESG ratings and data providers should be in-scope of the forthcoming regulation, financial products and indices that use those ESG ratings should not fall in scope as long as the ESG ratings and data providers comply with the forthcoming regulation. This should include any subsequent licencing of indices as well.