Barclays Response to European Commission targeted consultation on the functioning of the ESG ratings market in the European Union and on the consideration of ESG factors in credit ratings

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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.

We welcome the opportunity to respond to the European Commission's targeted consultation on the functioning of the ESG ratings market in the European Union and on the consideration of ESG factors in credit ratings

Executive Summary

Barclays is pleased to submit this response to the European Commission's targeted consultation on the functioning of the ESG ratings market in the European Union and on the consideration of ESG factors in credit ratings ("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 environmental, social and governance (ESG) ratings is having an increasingly important impact on the operation of capital markets.

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, the shortcomings and concerns expressed in this response could become a clear and present risk, potentially causing distortions in the capital allocation process. To this end, we believe that regulatory intervention is required to correct these market failures. This intervention should be consistent with IOSCO's recommendations for securities markets regulators[1]. We would additionally suggest that the European Commission works closely with other jurisdictions that are also considering intervention to avoid regulatory fragmentation. In the short term, EU intervention should address these issues through guidelines on transparency and governance and by drawing common definitions and best practices. Any measures should be developed in line with existing and upcoming sustainability disclosure requirements, and aim at improving the availability of reliable information.

[1] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf