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MINISTRY OF INDUSTRY, BUSINESS AND FINANCIAL AFFAIRS

Commissioner Mairead McGuiness
Commissioner for Financial Services, Financial Stability and Capital Markets Union
European Commission

MINISTER FOR INDUSTRY, BUSINESS AND FINANCIAL AFFAIRS

6 June 2022

Reply from the Danish government on the targeted consultation on the functioning of the ESG ratings market in the European Union and on the consideration of ESG factors in credit ratings

Dear Commissioner McGuinness

Thank you for this opportunity to respond to the consultation on ESG ratings and ESG factors in credit ratings. Below you will find our key points from our technical response and the main priorities for the Danish government.

Moving the European economy towards sustainability is an important and comprehensive task, and it is a key priority for the Danish government. Europe holds the potential and the ability to be among the most ambitious on sustainability globally, and we believe the European countries should pursue this role. We want to emphasize that all criteria, both environmental, social and governance, should stand on equal footing, receive full attention, and be implemented continuously as standards are developed.

As part of the sustainable transition, ESG ratings serve as a helpful tool for investors who seek to invest sustainably, and high quality ESG ratings can support well-functioning markets where capital is increasingly directed towards sustainable investments.

As an increasing number of investors wish to invest sustainably, the impact of ESG ratings becomes increasingly relevant. Thus, we welcome initiatives on gaining further insights on the condition of the ESG ratings market. The Commission's study on sustainability related-ratings, data and research published in January 2021 highlighted several issues with the ESG ratings market, in particular on transparency regarding data sourcing and methodologies. A deeper understanding of these issues is necessary if policy makers and regulators are to properly address the risk of green washing, capital misallocation and other risks that may stem from the ESG ratings market in the future.

Further, we must not forget social and governance criteria. Environmental and climate are currently standing in the foreground, but they should not

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overshadow our commitment to tackle issues in relation to social justice, unfair working conditions and diversity in management.

In order to enhance the reliability of and confidence in ESG ratings, we believe it is important that policymakers push the development of more sustainability data and ensure transparency in ESG ratings. The insights gained from this consultation are essential to ensure that any possible future policy interventions are based on a sufficient level of knowledge, analysis and impact assessment. Trustworthy and reliable ratings and information about ESG are key to ensure confidence from investors and consumers and a high level of protection, safeguarding against green washing and related risks. This is essential to ensure a credible sustainable transition.

In this regard, coherence with other initiatives to support the EU's work on sustainable financing is of high importance. The Commission's possible requirements for ESG assessments should therefore be based on the information that companies, both financial and non-financial, are required to report under the CSRD, SFDR and the Taxonomy.

In case the Commission's work on the ESG assessments and Sustainability Risks in Credit Assessments initiative gives rise to the need for additional information from ESG assessment providers, such information should be communicated to the Commission and EFRAG, which should take these observations into consideration in the ongoing updates of technical sustainability standards. Likewise, the expected impact of CSRD should be taken into account prior to any possible initiatives on the ESG assessments.

It is well-known that the challenge to address in sustainable finance is ensuring sufficient and reliable data to underpin sustainable investing and changing capital flows. More high-quality ESG ratings and increased focus on ESG factors – all three factors – could help address this challenge.

We stand ready to answer any questions or engage in future discussions, and look forward to following the coming work from the Commission.

Yours sincerely,

Simon Kollerup