

Transparency and integrity of Environmental, Social and Governance (ESG) rating activities

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The Committee on Economic and Monetary Affairs adopted the report by Aurore LALUCQ (S&D, FR) on the proposal for a regulation of the European Parliament and of the Council on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities.

The committee responsible recommended that the European Parliament's position adopted at first reading under the ordinary legislative procedure should amend the proposal as follows:

Subject-matter and scope

The proposed Regulation introduces a common regulatory approach to enhance the integrity, transparency, comparability, responsibility, reliability, alignment with Union law, good governance, and independence of ESG rating activities, contributing to the transparency and quality of ESG ratings. It aims to contribute to the smooth functioning of the internal market, while achieving a high level of consumer and investor protection and preventing greenwashing or other types of misinformation, including social-washing.

The rules relating to ESG rating providers should not apply to ESG ratings drawn up by European financial companies and used exclusively for internal purposes or shared within their group. The European Securities and Markets Authority (ESMA) should draw up draft regulatory standards to strictly delineate what constitutes internal use.

These rules should not apply to ratings issued by a member of the European System of Central Banks (ESCB).

Provision of ESG ratings in the Union

Any legal person who wishes to provide ESG ratings in the Union should be subject to either of the following: an authorisation issued by ESMA; an implementing decision; an authorisation for endorsement.

Recognition of third country ESG rating providers

Until the Commission has adopted an equivalence decision, third country ESG rating providers may provide ESG ratings to regulated financial undertakings in the Union, provided that ESMA has recognised that third country ESG rating provider.

A third country ESG rating provider recognised by ESMA should demonstrate that establishing a legal presence within the Union would be disproportionate to the nature, size and complexity of the third country ESG rating provider. ESMA should take into account whether the third country ESG rating provider belongs to a group. Third country ESG rating providers that wish to be recognised should have a **legal representative**.

Integrity and reliability of ESG rating activities

ESG rating providers should establish and maintain a **permanent, independent and effective oversight function** to ensure oversight overall aspects of the provision of their ESG ratings. The oversight function

should have the necessary resources and expertise and have access to all information necessary to perform its functions.

ESG rating providers should not provide consulting activities to investors, or financial or non-financial undertakings. Furthermore, ESG rating providers providing banking, insurance and reinsurance or investment activities, as well as entities that are part of a group to which an ESG rating provider belongs, should take appropriate measures to **prevent conflicts of interest**.

ESG rating providers should ensure that rating analysts, employees and any other natural person whose services are placed at its disposal or under its control and who are directly involved in the provision of ESG ratings, including analysts directly involved in the rating process and persons involved in the provision of scores, are **appropriately trained and have the knowledge and experience that is necessary** for the performance of the duties and tasks assigned, in particular a sufficient understanding of potential material financial risk to the rated entity and potential material impact of the rated entity on the environment and on society in general.

ESG rating providers should ensure that, when carrying out an assessment, the persons concerned should be **independent of the rated entity** and should not be involved in the decision making of the rated entity during the period of the assessment leading to the issuance of an ESG rating and for one year thereafter.

When the persons concerned participate in or otherwise influence the determination of an ESG rating of any rated entity, ESG rating providers should take all reasonable steps to ensure that their independence is not affected by any **existing or potential conflict of interest** or business or other direct relationship involving those persons.

Use of several ESG rating providers

When an entity or investor requests an ESG rating from two or more providers, they must consider designating at least one provider whose market share in the EU does not exceed 5%.

Record-keeping requirements

ESG rating providers should keep a record of key rating-related information, including rating, the rated legal entity or financial instrument, the rating type, the horizon or outlook used for the rating, and the rating status, and make that information available upon request to competent authorities in charge of the supervision of the regulated financial undertakings in the Union.

Transparency requirements

ESG rating providers should disclose on their website, as a minimum, the methodologies, models and key rating assumptions they use in their ESG rating activities. **Separate E, S and G ratings** should be provided rather than a single ESG metric that aggregates E, S and G factors.

In particular, ESG rating providers should provide a single ESG rating that aggregates E, S and G factors or an aggregated indicator of these factors, as well as the score assigned to each relevant factor and the weighting of each of these factors in the aggregation.

Independence and avoidance of conflicts of interest

ESG rating providers should: (i) put in place a robust governance arrangement, including a clear organisational structure with well-defined, transparent and consistent roles and responsibilities for all persons involved in the provision of an ESG rating; (ii) take necessary steps to ensure the independence and avoidance of conflicts of interest of all persons involved in the provision of an ESG rating.

