

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

2023/0177(COD) - 12/12/2024 - Final act

**PURPOSE:** to lay down a consistent and effective regime to address the shortcomings and vulnerabilities posed by environmental, social and governance (ESG) rating activities.

**LEGISLATIVE ACT:** Regulation (EU) 2024/3005 of the European Parliament and of the Council on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities, and amending Regulations (EU) 2019/2088 and (EU) 2023/2859.

**CONTENT:** **environmental, social and governance (ESG) ratings** play an important role in global capital markets, as investors, borrowers and issuers increasingly use ESG ratings as part of the process of making informed decisions relating to sustainable investment and financing.

## *Subject matter*

The new regulation aims to **make ESG rating activities in the EU more consistent, transparent and easily comparable** in order to strengthen investor confidence in sustainable financial products. It aims to contribute to the smooth functioning of the internal market, while ensuring a high level of consumer and investor protection and preventing greenwashing and other types of disinformation, including social laundering, by setting out transparency requirements for ESG ratings and rules on the organisation and conduct of ESG rating providers.

The regulation is based on the concept of '**operating in the Union**', distinguishing between cases where ESG rating providers are established within or outside the Union.

## *Provision of ESG ratings in the Union*

Any legal person that wishes to operate as an ESG rating provider in the Union shall be subject to one of the following requirements: (i) an **authorisation** issued by the European Securities and Markets Authority (ESMA), (ii) an equivalence decision, (iii) an endorsement or (iv) a recognition.

A three-year, temporary registration regime for **smaller companies** and groups providing ESG ratings is provided for. Smaller ESG rating providers that opt for the light regime will benefit from supervisory fees proportional to the extent of supervision by ESMA. For smaller ESG rating providers, the regulation also provides that, if the conditions are met, ESMA may decide to exempt an ESG rating provider from certain requirements, but only in duly justified cases.

## *Recognition of ESG rating providers established outside the Union*

ESG rating providers established outside the Union wishing to operate in the EU will need to obtain an **endorsement of their ESG ratings by an EU-authorized ESG rating provider**, a recognition based on a quantitative criterion or registration in the EU register of ESG rating providers based on an **equivalence decision** concerning their home country. ESMA will conclude cooperation arrangements with competent authorities of third countries whose legal framework and supervisory practices have been recognised as equivalent.

## *Integrity and reliability of ESG rating activities*

ESG rating providers shall ensure the independence of their rating activities, including from all political and economic influences or constraints. They will adopt and implement:

- written policies and procedures that ensure that their ESG ratings are based on a thorough analysis of all information available to them that is relevant to their analysis in accordance with their rating methodologies;
- internal due diligence policies and procedures;
- sound administrative and accounting procedures, internal control mechanisms, and effective control and safeguard arrangements for information processing systems.

### ***Separation of business activities***

The regulation introduces the principle of separation of business activities in order to **prevent conflicts of interest**.

ESG rating providers will ensure that they provide **independent, impartial, systematic and adequate quality ESG ratings**. To ensure their independence, ESG rating providers will have to avoid situations of conflict of interest. They will also have to document all material risks to their independence and the independence of their employees and other persons involved in the rating process, as well as the safeguards applied to mitigate these risks.

In order to avoid potential conflicts of interest, ESG rating providers will not be allowed to offer from within the same entity a number of other activities including consulting services, credit ratings, benchmarks, investment activities, auditing, activities of credit institutions or insurance and reinsurance activities.

### ***Disclosure of the methodologies, models and key rating assumptions used***

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

### ***Complaints handling mechanism***

ESG rating providers will establish and publish on their website procedures for receiving complaints from users of ESG ratings, for reviewing them and for keeping records of them. They shall make the complaints handling policy publicly available.

### ***ESMA***

ESMA will publish annually on its website a list of ESG rating providers registered in the register, indicating their total market share in the Union. It may also take one or more supervisory measures in respect of any person operating in the Union.

ENTRY INTO FORCE: 1.1.2025.

APPLICATION: from 2.7.2026.