

Basic information	
<p>2023/0177(COD)</p> <p>COD - Ordinary legislative procedure (ex-codecision procedure) Regulation</p>	Procedure completed
<p>Transparency and integrity of Environmental, Social and Governance (ESG) rating activities</p> <p>Subject</p> <p>2.50.03 Securities and financial markets, stock exchange, CIUTS, investments 2.50.05 Insurance, pension funds 2.50.08 Financial services, financial reporting and auditing 3.70.20 Sustainable development</p>	

Key players				
European Parliament	Committee responsible		Rapporteur	Appointed
	ECON	Economic and Monetary Affairs	LALUCQ Aurore (S&D)	04/07/2023
			<p>Shadow rapporteur</p> <p>GARCÍA-MARGALLO Y MARFIL José Manuel (EPP)</p> <p>KELLEHER Billy (Renew)</p> <p>ANDRESEN Rasmus (Greens/EFA)</p> <p>ROOKMAKER Dorien (ECR)</p> <p>PAPADIMOULIS Dimitrios (The Left)</p>	
	Committee for opinion		Rapporteur for opinion	Appointed
	EMPL	Employment and Social Affairs	The committee decided not to give an opinion.	
	ENVI	Environment, Public Health and Food Safety	The committee decided not to give an opinion.	
JURI	Legal Affairs	DURAND Pascal (S&D)	23/10/2023	
Council of the European Union	Council configuration		Meetings	Date
	General Affairs		4059	2024-11-19

European Commission	Commission DG	Commissioner
	Financial Stability, Financial Services and Capital Markets Union	MCGUINNESS Mairead
European Economic and Social Committee		

Key events			
Date	Event	Reference	Summary
13/06/2023	Legislative proposal published	COM(2023)0314 	Summary
10/07/2023	Committee referral announced in Parliament, 1st reading		
04/12/2023	Vote in committee, 1st reading		
04/12/2023	Committee decision to open interinstitutional negotiations with report adopted in committee		
08/12/2023	Committee report tabled for plenary, 1st reading	A9-0417/2023	Summary
11/12/2023	Committee decision to enter into interinstitutional negotiations announced in plenary (Rule 71)		
13/12/2023	Committee decision to enter into interinstitutional negotiations confirmed by plenary (Rule 71)		
22/02/2024	Approval in committee of the text agreed at 1st reading interinstitutional negotiations	PE759.068 GEDA/A/(2024)001016	
24/04/2024	Decision by Parliament, 1st reading	T9-0347/2024	Summary
24/04/2024	Results of vote in Parliament		
19/11/2024	Act adopted by Council after Parliament's 1st reading		
27/11/2024	Final act signed		
12/12/2024	Final act published in Official Journal		

Technical information	
Procedure reference	2023/0177(COD)
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)
Procedure subtype	Legislation
Legislative instrument	Regulation
Legal basis	Treaty on the Functioning of the European Union TFEU 114
Other legal basis	Rules of Procedure EP 165
Mandatory consultation of other institutions	European Economic and Social Committee
Stage reached in procedure	Procedure completed
Committee dossier	ECON/9/12324

[Documentation gateway](#)

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE753.758	06/10/2023	
Amendments tabled in committee		PE754.956	25/10/2023	
Specific opinion	JURI	PE756.346	29/11/2023	
Committee report tabled for plenary, 1st reading/single reading		A9-0417/2023	08/12/2023	Summary
Text agreed during interinstitutional negotiations		PE759.068	14/02/2024	
Text adopted by Parliament, 1st reading/single reading		T9-0347/2024	24/04/2024	Summary

Council of the EU

Document type	Reference	Date	Summary
Coreper letter confirming interinstitutional agreement	GEDA/A/(2024)001016	14/02/2024	
Draft final act	00043/2024/LEX	27/11/2024	

European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2023)0314 	13/06/2023	Summary
Document attached to the procedure	SEC(2023)0241 	14/06/2023	
Document attached to the procedure	SWD(2023)0204 	14/06/2023	
Document attached to the procedure	SWD(2023)0207 	14/06/2023	
Commission response to text adopted in plenary	SP(2024)394	08/08/2024	

National parliaments

Document type	Parliament /Chamber	Reference	Date	Summary
Contribution	IT_CHAMBER	COM(2023)0314	18/10/2023	
Contribution	IT_SENATE	COM(2023)0314	14/12/2023	

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
EESC	Economic and Social Committee: opinion, report	CES3268/2023	25/10/2023	

Additional information		
Source	Document	Date
European Commission	EUR-Lex	

Meetings with interest representatives published in line with the Rules of Procedure

Rapporteurs, Shadow Rapporteurs and Committee Chairs

Transparency				
Name	Role	Committee	Date	Interest representatives
ANDRESEN Rasmus	Shadow rapporteur	ECON	25/01/2024	Deutsche Kreditbank Aktiengesellschaft
LALUCQ Aurore	Rapporteur	ECON	28/11/2023	FSMA-IOSCO
LALUCQ Aurore	Rapporteur	ECON	23/11/2023	Deutsche borse
LALUCQ Aurore	Rapporteur	ECON	23/11/2023	EthiFinance
LALUCQ Aurore	Rapporteur	ECON	17/11/2023	AFEP
KELLEHER Billy	Shadow rapporteur	ECON	16/11/2023	Association for Financial Markets in Europe
LALUCQ Aurore	Rapporteur	ECON	16/11/2023	MSCI
GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	16/11/2023	FTI Consulting Belgium
GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	13/11/2023	Morningstar
GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	13/11/2023	LSEG
LALUCQ Aurore	Rapporteur	ECON	13/11/2023	ICE
ANDRESEN Rasmus	Rapporteur	ECON	10/11/2023	Bundesverband der Deutschen Volksbanken und Raiffeisenbanken Deutsche Börse AG
LALUCQ Aurore	Rapporteur	ECON	09/11/2023	The Goldman Sachs Group, Inc.
LALUCQ Aurore	Rapporteur	ECON	16/10/2023	European Banking Federation
LALUCQ Aurore	Rapporteur	ECON	16/10/2023	LSEG
LALUCQ Aurore	Rapporteur	ECON	13/10/2023	Fédération bancaire française
ANDRESEN Rasmus	Shadow rapporteur	ECON	12/10/2023	AMUNDI AM European Banking Federation Federation of European Securities Exchanges Insurance Europe MSCI Limited Sustainalytics BV ICE Intercontinental Exchange

				AFG Gesamtverband der Versicherer Future of Sustainable Data Anjali
LALUCQ Aurore	Rapporteur	ECON	11/10/2023	Moody's Shared Services UK Ltd.
LALUCQ Aurore	Rapporteur	ECON	11/10/2023	Sustainable Fitch
LALUCQ Aurore	Rapporteur	ECON	11/10/2023	FTI Consulting Belgium
LALUCQ Aurore	Rapporteur	ECON	11/10/2023	Deutsche borse
LALUCQ Aurore	Rapporteur	ECON	10/10/2023	EFAMA
LALUCQ Aurore	Rapporteur	ECON	10/10/2023	Société Générale
ANDRESEN Rasmus	Shadow rapporteur	ECON	10/10/2023	Better Europe
GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	09/10/2023	AFME
ROOKMAKER Dorien	Shadow rapporteur	ECON	09/10/2023	MSCI Limited
LALUCQ Aurore	Rapporteur	ECON	09/10/2023	EcoVadis
GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	06/10/2023	MSCI Limited
GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	06/10/2023	AFG
GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	05/10/2023	CDP
GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	05/10/2023	EcoVadis
GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	28/09/2023	Clarity AI
LALUCQ Aurore	Rapporteur	ECON	27/09/2023	Finance Watch
GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	27/09/2023	Moody's Shared Services UK Ltd.
LALUCQ Aurore	Rapporteur	ECON	26/09/2023	Carbon 4
LALUCQ Aurore	Rapporteur	ECON	26/09/2023	AMUNDI AM
GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	26/09/2023	BlackRock
GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	25/09/2023	LSEG
LALUCQ Aurore	Rapporteur	ECON	25/09/2023	EthiFinance
GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	22/09/2023	Hanbury Strategy and Communications Limited
GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	22/09/2023	CITI
LALUCQ Aurore	Rapporteur	ECON	20/09/2023	Deutsche Börse Group (DBG)
LALUCQ Aurore	Rapporteur	ECON	20/09/2023	Morningstar Sustainalytics

GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	18/09/2023	Morningstar Sustainalytics
LALUCQ Aurore	Rapporteur	ECON	12/09/2023	Transport and Environment
LALUCQ Aurore	Rapporteur	ECON	12/09/2023	Reclaim Finance
LALUCQ Aurore	Rapporteur	ECON	11/09/2023	AFG
LALUCQ Aurore	Rapporteur	ECON	07/09/2023	S&P Global
GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	07/09/2023	S&P Global
LALUCQ Aurore	Rapporteur	ECON	06/09/2023	BPCE Group Affaires Publiques
LALUCQ Aurore	Rapporteur	ECON	06/09/2023	MSCI Limited
LALUCQ Aurore	Rapporteur	ECON	05/09/2023	Moody's
LALUCQ Aurore	Rapporteur	ECON	05/09/2023	EthiFinance
LALUCQ Aurore	Rapporteur	ECON	04/09/2023	Finance Watch
LALUCQ Aurore	Rapporteur	ECON	31/08/2023	AXA
LALUCQ Aurore	Rapporteur	ECON	30/08/2023	FTI Consulting Belgium

Other Members

Transparency		
Name	Date	Interest representatives
FERBER Markus	06/12/2023	Aareal Bank AG
FERBER Markus	29/11/2023	DHL Group
BOYER Gilles	27/11/2023	Association Française des Entreprises Privées / French Association of Large Companies
BOYER Gilles	16/11/2023	Société Générale
BOYER Gilles	16/11/2023	AMUNDI AM
BOYER Gilles	13/11/2023	Fédération bancaire française
BOYER Gilles	07/11/2023	Citi
BOYER Gilles	19/10/2023	Association Française des Entreprises Privées / French Association of Large Companies
BEGHIN Tiziana	18/10/2023	Diligentia ETS
BOYER Gilles	16/10/2023	AMUNDI AM
BOYER Gilles	13/10/2023	Crédit Agricole S.A.
VANDENKENDELAERE Tom	09/10/2023	Move to Happiness
BOYER Gilles	09/10/2023	Association Française des Entreprises Privées / French Association of Large Companies
BOYER Gilles	06/10/2023	Société Générale

Final act
Regulation 2024/3005 OJ OJ L 12.12.2024

[Summary](#)

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

2023/0177(COD) - 08/12/2023 - Committee report tabled for plenary, 1st reading/single reading

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.

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-authorised 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.

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

2023/0177(COD) - 13/06/2023 - Legislative proposal

PURPOSE: to lay down a consistent and effective regime to address the shortcomings and vulnerabilities that environmental, social, and governance ratings pose.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: environmental, social, and governance (ESG) investing, that is, investing which takes ESG factors into account when making investment decisions, is becoming an important part of mainstream finance. Notably, investment funds with sustainable characteristics or objectives have largely increased in number, size and the type of capital they attract. In this context, an ESG investment ecosystem has developed, including amongst others the supply of ESG ratings. Such ESG ratings are marketed as **providing an opinion on the exposure of a company or entity to environmental, social and/or governance factors**, and their impact on society.

The current ESG rating market suffers from **deficiencies** and is not functioning properly, with users' and rated entities' needs regarding ESG ratings not being met and confidence in ratings undermined. This problem has a number of different dimensions, mainly (i) the lack of transparency on the characteristics of ESG ratings, their methodologies and their data sources and (ii) the lack of clarity on how ESG rating providers operate. Therefore, ESG ratings do not serve their purpose and do not sufficiently enable users, investors and rated entities to take informed decisions as regards ESG-related risks, impacts and opportunities.

Hence, the Commission committed in the renewed sustainable finance strategy adopted in July 2021, to take action to improve the reliability, comparability and transparency of ESG ratings.

CONTENT: this proposal aims to introduce a **common regulatory approach to enhance the integrity, transparency, responsibility, 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, by introducing transparency requirements related to ESG ratings and rules on the organisation and conduct of ESG rating providers.

More specifically, this proposal aims to enhance the **quality of information** about ESG ratings, by (i) improving transparency of ESG ratings **characteristics and methodologies** to enable investors to make better informed investment decisions in regard to sustainability objectives, and by (ii) ensuring increased clarity on operations of ESG rating providers and the prevention of risks of conflict of interest at ESG rating providers' level.

As supervisor of the ESG rating providers under this proposal, the **European Securities and Markets Authority (ESMA)** would be the appropriate body to take stock of the developments and highlight potential issues of concern, liaising with relevant national authorities in the Member State where ESG ratings are used and where ESG rating providers are located and have their operations.

Budgetary implications

This proposal empowers ESMA to carry out a new function, namely to authorise and supervise ESG rating providers providing their services under this Regulation. This will require ESMA to charge ESG rating providers fees, which should cover all administrative costs incurred by ESMA for its authorisation and supervision activities. The total annual cost increase is estimated at approximately EUR 3.7-3.8 million. This cost will not be borne by EU budget.

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

2023/0177(COD) - 24/04/2024 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 464 votes to 115, with 13 abstentions, a legislative resolution 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 European Parliament's position adopted at first reading under the ordinary legislative procedure amends the proposal as follows:

Subject-matter and scope

This Regulation introduces a common regulatory approach to enhance the integrity, transparency, comparability where possible, responsibility, reliability, good governance, and independence of ESG rating activities, contributing to the transparency and quality of ESG ratings and to the sustainable finance agenda of the Union.

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.

In the first case, **providers established in the Union** should be deemed to operate in the Union when they issue and publish their ESG ratings on their website or through other means, or when they issue and distribute their ESG ratings through subscription or other contractual relationships to regulated financial undertakings in the Union, to undertakings falling under the scope of Directive 2013/34/EU of the European Parliament and of the Council, to undertakings under the scope of Directive 2004/109/EC of the European Parliament and of the Council, in particular with respect to third-country issuers whose securities are admitted to trading on EU regulated markets, or to Union's or Member States' public authorities.

In the second case, **providers established outside the Union** should only be considered operating in the Union when they issue and distribute their ratings by subscription or other contractual relationships to the same entities as for ESG rating providers established in the Union.

Requirements to operate in the Union

Any legal person that wishes to operate as an ESG rating provider in the Union should be subject to any of the following: an authorisation issued by ESMA; an implementing decision; an authorisation for endorsement and a recognition. A temporary regime should be introduced to facilitate the market entry of smaller ESG rating providers and support the development of existing smaller ESG rating providers already operating in the Union before the entry into force of this Regulation.

Within **25 working days** of receipt of the application, ESMA should assess whether the application is complete. After having assessed whether an application is complete, ESMA should notify the applicant of the result of that assessment. Within 90 working days of the notification, ESMA should adopt a fully reasoned decision to authorise or refuse authorisation. ESMA may extend the period to 120 working days.

Equivalence decision

An ESG rating provider established **outside the Union** that wishes to operate in the Union should only be able to do so where: (i) the provider is a legal person, is authorised or registered as an ESG rating provider in the third country concerned, and is subject to supervision in that third country; (ii) the provider has notified ESMA that it wishes operate in the Union and has submitted to ESMA the proof of the authorisation or registration. ESMA should establish cooperation arrangements with the competent authorities of third countries whose legal framework and supervisory practices have been recognised as equivalent.

An ESG rating provider established **in the Union** and authorised may **endorse ESG ratings** provided by an ESG rating provider established outside the Union and belonging to the same group, provided that all of the following conditions have been met:

- it has own premises or premises for its exclusive use in a Member State; it has at least one active bank account of its own in the Union; and it has appropriate analytical and decision-making presence in the Union considering the nature, scale or complexity of its activities in the Union;

- the ESG rating provider established in the Union has verified and is able to demonstrate on an on-going basis to ESMA that the issuance and distribution of endorsed ESG ratings fulfils requirements which are at least as stringent as the requirements of this Regulation;
- the ESG rating provider established in the Union has the necessary expertise to effectively monitor the ESG ratings by the ESG rating provider established outside the Union, to manage any associated risks.

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

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. ESG rating providers should provide the disclosures separately for each factor.

Complaints-handling mechanism

ESG rating providers should: (i) have in place and publish on their website procedures for receiving, investigating and retaining records concerning complaints made by users of ESG ratings, rated items and issuers of rated items; (ii) clearly provide information on their website about their complaints-handling mechanism and contact details; (iii) have in place procedures for receiving reasoned concerns by stakeholders.

Independence and avoidance of conflicts of interest

ESG rating providers should put in place robust governance arrangements. If there is a risk of a conflict of interest in an ESG rating provider, ESMA should take action. If a conflict of interest is not adequately managed through specific risk mitigation measures, ESMA should require the ESG rating provider to put an end to the breach.

ESMA

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