












# Procedure file

Basic information	
<p>COD - Ordinary legislative procedure (ex-codecision procedure) Regulation</p> <p>2023/0177(COD)</p>	Awaiting Council's 1st reading position
<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</p> <p>2.50.05 Insurance, pension funds</p> <p>2.50.08 Financial services, financial reporting and auditing</p> <p>3.70.20 Sustainable development</p>	

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	 <a href="#">Economic and Monetary Affairs</a>		04/07/2023
		 <a href="#">LALUCQ Aurore</a>	
		Shadow rapporteur	
		 <a href="#">GARCÍA-MARGALLO Y MARFIL José Manuel</a>	
		 <a href="#">KELLEHER Billy</a>	
		 <a href="#">ANDRESEN Rasmus</a>	
		 <a href="#">ROOKMAKER Dorien</a>	
		 <a href="#">PAPADIMOULIS Dimitrios</a>	
Council of the European Union European Commission	Committee for opinion	Rapporteur for opinion	Appointed
	 <a href="#">Employment and Social Affairs</a>	The committee decided not to give an opinion.	
	 <a href="#">Environment, Public Health and Food Safety</a>	The committee decided not to give an opinion.	
	 <a href="#">Legal Affairs</a>		23/10/2023
		 <a href="#">DURAND Pascal</a>	
	Commission DG	Commissioner	

## Key events

13/06/2023	Legislative proposal published	<a href="#">COM(2023)0314</a>	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	<a href="#">A9-0417/2023</a>	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	<a href="#">PE759.068</a> GEDA/A/(2024)001016	
24/04/2024	Decision by Parliament, 1st reading	<a href="#">T9-0347/2024</a>	

## 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 EU TFEU 114
Other legal basis	Rules of Procedure EP 159
Mandatory consultation of other institutions	<a href="#">European Economic and Social Committee</a>
Stage reached in procedure	Awaiting Council's 1st reading position
Committee dossier	ECON/9/12324

## Documentation gateway

Legislative proposal		<a href="#">COM(2023)0314</a>	13/06/2023	EC	Summary
Document attached to the procedure		<a href="#">SEC(2023)0241</a>	14/06/2023	EC	
Document attached to the procedure		<a href="#">SWD(2023)0204</a>	14/06/2023	EC	
Document attached to the procedure		<a href="#">SWD(2023)0207</a>	14/06/2023	EC	
Committee draft report		<a href="#">PE753.758</a>	06/10/2023	EP	
Amendments tabled in committee		<a href="#">PE754.956</a>	25/10/2023	EP	

Specific opinion	JURI	<a href="#">PE756.346</a>	29/11/2023	EP	
Committee report tabled for plenary, 1st reading/single reading		<a href="#">A9-0417/2023</a>	08/12/2023	EP	Summary
Coreper letter confirming interinstitutional agreement		GEDA/A/(2024)001016	14/02/2024	CSL	
Text agreed during interinstitutional negotiations		<a href="#">PE759.068</a>	14/02/2024	EP	
Text adopted by Parliament, 1st reading/single reading		<a href="#">T9-0347/2024</a>	24/04/2024	EP	

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

**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 introduces 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

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				
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	EthiFinance

LALUCQ Aurore	Rapporteur	ECON	23/11/2023	Deutsche borse
LALUCQ Aurore	Rapporteur	ECON	17/11/2023	AFEP
KELLEHER Billy	Shadow rapporteur	ECON	16/11/2023	Association for Financial Markets in Europe
GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	16/11/2023	FTI Consulting Belgium
LALUCQ Aurore	Rapporteur	ECON	16/11/2023	MSCI
LALUCQ Aurore	Rapporteur	ECON	13/11/2023	ICE
GARCÍA-MARGALLO Y MARFIL José Manuel	Shadow rapporteur	ECON	13/11/2023	LSEG
FERBER Markus	Member	06/12/2023	Aareal Bank AG	
FERBER Markus	Member	29/11/2023	DHL Group	
BOYER Gilles	Member	27/11/2023	Association Française des Entreprises Privées / French Association of Large Companies	
BOYER Gilles	Member	16/11/2023	AMUNDI AM	
BOYER Gilles	Member	16/11/2023	Société Générale	
BOYER Gilles	Member	13/11/2023	Fédération bancaire française	
BOYER Gilles	Member	07/11/2023	Citi	
BOYER Gilles	Member	19/10/2023	Association Française des Entreprises Privées / French Association of Large Companies	
BEGHIN Tiziana	Member	18/10/2023	Diligentia ETS	
BOYER Gilles	Member	16/10/2023	AMUNDI AM	