



2023/0177(COD)

6.10.2023

*****I**

DRAFT REPORT

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
(COM(2023)0314 – C9-0203/2023 – 2023/0177(COD))

Committee on Economic and Monetary Affairs

Rapporteur: Aurore Lalucq

Symbols for procedures

- * Consultation procedure
- *** Consent procedure
- ***I Ordinary legislative procedure (first reading)
- ***II Ordinary legislative procedure (second reading)
- ***III Ordinary legislative procedure (third reading)

(The type of procedure depends on the legal basis proposed by the draft act.)

Amendments to a draft act

Amendments by Parliament set out in two columns

Deletions are indicated in ***bold italics*** in the left-hand column. Replacements are indicated in ***bold italics*** in both columns. New text is indicated in ***bold italics*** in the right-hand column.

The first and second lines of the header of each amendment identify the relevant part of the draft act under consideration. If an amendment pertains to an existing act that the draft act is seeking to amend, the amendment heading includes a third line identifying the existing act and a fourth line identifying the provision in that act that Parliament wishes to amend.

Amendments by Parliament in the form of a consolidated text

New text is highlighted in ***bold italics***. Deletions are indicated using either the ▬ symbol or strikeout. Replacements are indicated by highlighting the new text in ***bold italics*** and by deleting or striking out the text that has been replaced.

By way of exception, purely technical changes made by the drafting departments in preparing the final text are not highlighted.

CONTENTS

	Page
DRAFT EUROPEAN PARLIAMENT LEGISLATIVE RESOLUTION	5
EXPLANATORY STATEMENT	52

DRAFT EUROPEAN PARLIAMENT 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

(COM(2023)0314 – C9-0203/2023 – 2023/0177(COD))

(Ordinary legislative procedure: first reading)

The European Parliament,

- having regard to the Commission proposal to Parliament and the Council (COM(2023)0314),
 - having regard to Article 294(2) and Article 114 of the Treaty on the Functioning of the European Union, pursuant to which the Commission submitted the proposal to Parliament (C9-0203/2023),
 - having regard to Article 294(3) of the Treaty on the Functioning of the European Union,
 - having regard to the opinion of the European Central Bank of 4 October 2023¹,
 - having regard to the opinion of the European Economic and Social Committee of ...²,
 - having regard to Rule 59 of its Rules of Procedure,
 - having regard to the opinion of the Committee on Legal Affairs,
 - having regard to the report of the Committee on Economic and Monetary Affairs (A9-0000/2023),
1. Adopts its position at first reading hereinafter set out;
 2. Calls on the Commission to refer the matter to Parliament again if it replaces, substantially amends or intends to substantially amend its proposal;
 3. Instructs its President to forward its position to the Council, the Commission and the national parliaments.

Amendment 1

Proposal for a regulation

Recital 1 a (new)

¹ Not yet published in the Official Journal.

² Not yet published in the Official Journal.

Text proposed by the Commission

Amendment

(1a) Furthermore, the UN Principles for Responsible Investment have over 3000 signatories representing over EUR 100 trillion of assets under management. That carries a risk of mis-selling and greenwashing if ESG data is not subject to any standards or harmonisation. Accurate and reliable ESG information is therefore key.

Or. en

Amendment 2

Proposal for a regulation

Recital 2

Text proposed by the Commission

Amendment

(2) The transition to a sustainable economy is key to ensuring the ***long-term competitiveness of*** the Union ***economy***. Sustainability has long been at the heart of the Union project and the Union Treaties give recognition to its social and environmental dimensions.

(2) The transition to a sustainable economy is key to ensuring the ***quality of life of citizens in*** the Union ***and to keeping global warming well below the 1.5 degree Celsius threshold***. Sustainability has long been at the heart of the Union project and the Union Treaties give recognition to its social and environmental dimensions.

Or. en

Amendment 3

Proposal for a regulation

Recital 3

Text proposed by the Commission

Amendment

(3) Achieving SDG objectives in the Union requires the channelling of capital flows towards sustainable investments. It is important to exploit fully the potential of the internal market for the achievement of

(3) Achieving SDG objectives in the Union requires the channelling of capital flows towards sustainable investments. It is important to exploit fully the potential of the internal market for the achievement of

those goals. In that context, it is crucial to remove obstacles to the efficient movement of capital towards sustainable investments in the internal market **and** to prevent such obstacles from emerging.

those goals. In that context, it is crucial to remove obstacles to the efficient movement of capital towards sustainable investments in the internal market, to prevent such obstacles from emerging **and to set rules and standards to, on the one hand, incentivise sustainable finance and, on the other, disincentivise investments that can adversely impact the achievement of SDG objectives.**

Or. en

Amendment 4

Proposal for a regulation

Recital 6

Text proposed by the Commission

(6) As part of the Action Plan, the Commission commissioned a study entitled “Study on Sustainability Related Ratings, Data and Research”²³ to take stock of the developments in the sustainability-related products and services market, identify the main market participants and highlight potential shortcomings. That study provided an inventory and classification of market actors, sustainability products and services available in the market and an analysis of the use and perceived quality of sustainability-related products and services by market participants. The study highlighted the lack of transparency and accuracy of Environmental, Social and Governance (‘ESG’) ratings methodologies and the lack of clarity over the operations of ESG rating providers.

²³ European Commission, Directorate-General for Financial Stability, Financial Services and Capital Markets Union, Study on sustainability-related ratings, data and

Amendment

(6) As part of the Action Plan, the Commission commissioned a study entitled “Study on Sustainability Related Ratings, Data and Research”²³ to take stock of the developments in the sustainability-related products and services market, identify the main market participants and highlight potential shortcomings. That study provided an inventory and classification of market actors, sustainability products and services available in the market and an analysis of the use and perceived quality of sustainability-related products and services by market participants. The study highlighted the **existence of conflicts of interest, the** lack of transparency and accuracy of Environmental, Social and Governance (‘ESG’) ratings methodologies and the lack of clarity over **terminology and** the operations of ESG rating providers.

²³ European Commission, Directorate-General for Financial Stability, Financial Services and Capital Markets Union, Study on sustainability-related ratings, data and

Amendment 5

Proposal for a regulation Recital 9 a (new)

Text proposed by the Commission

Amendment

(9a) Regulation (EU) 2019/2088 of the European Parliament and of the Council^{1a}, Regulation (EU) 2020/852 of the European Parliament and of the Council^{1b} and Directive (EU) 2022/2464 of the European Parliament and of the Council^{1c} represent landmark legislative initiatives to enhance the availability, quality and consistency of ESG requirements across the entire value chain of financial market participants. As a result of those public initiatives, there are fewer and fewer gaps in the availability and comparability of data. ESG rating providers should therefore make use of those data.

^{1a} Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (OJ L 317, 9.12.2019, p. 1).

^{1b} Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

^{1c} Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending

Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (OJ L 322, 16.12.2022, p. 15).

Or. en

Amendment 6

Proposal for a regulation

Recital 10

Text proposed by the Commission

(10) ESG ratings play an important role in global capital markets, ***as investors, borrowers and issuers increasingly use those ESG ratings as part of making informed, sustainable investment and financing decisions.*** Credit institutions, investment firms, insurance undertakings, assurance undertakings, and reinsurance undertakings, amongst others, often use those ESG ratings as a reference for the sustainability performance or for the sustainability risks and opportunities in their investment activity. Consequently, ESG ratings have a significant impact on the operation of the markets and on the trust and confidence of investors and consumers. To ensure that ESG ratings used in the Union are independent, objective and of adequate quality, it is important that ESG rating activities are conducted in accordance with the principles of integrity, transparency, responsibility, and good governance. Better comparability and increased reliability of ESG ratings would enhance the efficiency of that fast-growing market, thereby facilitating progress towards the objectives of the Green Deal.

Amendment

(10) ESG ratings ***can*** play an important role in global capital markets ***in offering a missing link between the demand for, and supply of,*** sustainable ***investments.*** Credit institutions, investment firms, insurance undertakings, assurance undertakings, and reinsurance undertakings, amongst others, often use those ESG ratings as a reference for the sustainability performance or for the sustainability risks and opportunities in their investment activity. Consequently, ESG ratings have a significant impact on the operation of the markets and on the trust and confidence of investors and consumers. To ensure that ESG ratings used in the Union are independent, objective and of adequate quality, it is important that ESG rating activities are conducted in accordance with the principles of integrity, transparency, responsibility, and good governance ***as well as with core concepts of Union law.*** Better comparability and increased reliability of ESG ratings would enhance the efficiency of that fast-growing market, thereby facilitating progress towards the objectives of the Green Deal.

Or. en

Amendment 7

Proposal for a regulation Recital 10 a (new)

Text proposed by the Commission

Amendment

(10a) To assess the ESG profile of companies, and as part of their sustainable investment and financing decisions processes, credit institutions, investment firms, insurance undertakings, assurance undertakings and reinsurance undertakings, amongst others, rely both on external ESG ratings and on external ESG data products. Financial institutions should bear responsibility in the case of greenwashing accusations concerning their financial products, while the distribution of ESG information on entities or financial products, relying on proprietary or established methodology, which includes, among others, data sets on emissions and data on controversies, should not be covered by this Regulation. It is important that the Commission carries out a review of this Regulation to assess whether the scope identified is sufficient to ensure the confidence of investors and consumers in the sustainability performance of financial products and services and, where needed, envisages broadening the set of ESG data products and ESG data products providers covered by this Regulation.

Or. en

Amendment 8

Proposal for a regulation Recital 11

Text proposed by the Commission

Amendment

(11) ESG ratings play an enabling role for the proper functioning of the Union

deleted

sustainable finance market by providing important information for investment strategies, risk management and disclosure obligations by investors and financial institutions. It is therefore necessary to ensure that ESG ratings provide material decision-useful information to the users, and that users of ESG ratings better understand the objectives which ESG ratings pursue and what specific issues and metrics those ratings measure.

Or. en

Amendment 9

Proposal for a regulation Recital 15

Text proposed by the Commission

(15) Rules on ESG rating providers should not apply to private ESG ratings produced pursuant to an individual order and provided exclusively to the person who placed the order and which are not intended for public disclosure or distribution by subscription or other means. Neither should such rules apply to ESG ratings produced by European financial undertakings that are used for internal purposes. ESG ratings developed by European or national authorities and by central banks should also be exempted from such rules. Finally, such rules should not apply to the provision of ESG data that do not include an element of rating or scoring and are not subject to any modelling or analysis resulting in the development of an ESG rating.

Amendment

(15) Rules on ESG rating providers should not apply to private ESG ratings produced pursuant to an individual order and provided exclusively to the person who placed the order and which are not intended for public disclosure or distribution by subscription or other means. Neither should such rules apply to ESG ratings produced by European financial undertakings that are used for internal purposes. ESG ratings developed by European or national authorities and by central banks should also be exempted from such rules. ***Furthermore, non-profit civil society organisations that offer free rating-like services should be excluded from the scope of this Regulation.*** Finally, such rules should not apply to the provision of ESG data that do not include an element of rating or scoring and are not subject to any modelling or analysis resulting in the development of an ESG rating.

Or. en

Amendment 10

Proposal for a regulation Recital 16

Text proposed by the Commission

(16) It is important to lay down rules ensuring that ESG ratings provided by ESG rating providers authorised in the Union are of adequate quality, are subject to appropriate requirements and ensure market integrity. Those rules would apply to overall ESG ratings ***capturing Environmental, Social and Governance factors, and to ratings that are only looking at a single*** Environmental, Social or Governance ***factor*** or sub-component of that factor.

Amendment

(16) It is important to lay down rules ensuring that ESG ratings provided by ESG rating providers authorised in the Union are of adequate quality, are subject to appropriate requirements and ensure market integrity. Those rules would apply to overall ESG ratings ***that consider*** Environmental, Social or Governance ***factors*** or sub-component of ***those*** factors. ***Expressing ESG ratings in the form of a single metric aggregating Environmental, Social and Governance factors is detrimental to the reliability and comparability of the ratings and should not be permitted.***

Or. en

Amendment 11

Proposal for a regulation Recital 16 a (new)

Text proposed by the Commission

Amendment

(16a) Competition among ESG rating providers and an environment in which small ESG rating providers can enter the market are key as consolidation can produce higher prices, barriers to entry, lower competition, reduced innovation, less geographical diversity in providers and poor coverage of smaller issuers. Entities that seek more than one ESG rating should choose at least one ESG rating provider with a market share below 5%.

Amendment 12

Proposal for a regulation

Recital 17

Text proposed by the Commission

(17) Given the use of ESG ratings from providers located outside the Union, it is necessary to introduce requirements based on which third-country ESG rating providers may offer their services in the Union. This is necessary to ensure market integrity, investor protection and proper enforcement. Therefore, three possible regimes are proposed for those third countries ESG rating providers: equivalence, endorsement and recognition. As an overarching principle, supervision and regulation in a third country should be equivalent to Union supervision and regulation of ESG ratings. Therefore, ESG ratings provided by an ESG rating provider located in a third country can only be offered in the Union where a positive decision on equivalence of the third-country regime has been taken by the Commission. However, to avoid any adverse impact resulting from a possible abrupt cessation of the offering in the Union of ESG ratings provided by a third country ESG rating provider, it is also necessary to provide for certain other mechanisms, that is endorsement and recognition. Any ESG rating provider with a group structure should be able to use the mechanism of endorsement for the ESG ratings developed outside the Union, provided they establish, within the group, an authorised ESG rating provider in the Union. Smaller ESG rating providers, within the meaning of the maximum threshold of net turnover to define small undertakings in Directive 2013/34/EU²⁶, that generally do not belong to a group, and

Amendment

(17) Given the use of ESG ratings from providers located outside the Union, it is necessary to introduce requirements based on which third-country ESG rating providers may offer their services in the Union. This is necessary to ensure market integrity, investor protection and proper enforcement. Therefore, three possible regimes are proposed for those third countries ESG rating providers: equivalence, endorsement and recognition. As an overarching principle, supervision and regulation in a third country should be equivalent to Union supervision and regulation of ESG ratings. Therefore, ESG ratings provided by an ESG rating provider located in a third country can only be offered in the Union where a positive decision on equivalence of the third-country regime has been taken by the Commission. ***Third-country ESG rating providers that can be subject to the Union's equivalent regulatory and supervisory regime should be legally established, authorised and registered in a third country.*** However, to avoid any adverse impact resulting from a possible abrupt cessation of the offering in the Union of ESG ratings provided by a third country ESG rating provider, it is also necessary to provide for certain other mechanisms, that is endorsement and recognition. Any ESG rating provider with a group structure should be able to use the mechanism of endorsement for the ESG ratings developed outside the Union, provided they establish, within the group, an authorised ESG rating provider in the

may not have the means to have a legal entity authorised in the Union, should be able to continue or start offering their services in the Union and should therefore benefit from a lighter regime, that is recognition. Where the third country ESG provider is subject to supervision, appropriate cooperation arrangements should be put in place in order to ensure the proper exchange of information with the relevant competent authority of the third country.

²⁶ Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).

Union. Smaller ESG rating providers, within the meaning of the maximum threshold of net turnover to define small undertakings in Directive 2013/34/EU²⁶, that generally do not belong to a group, and may not have the means to have a legal entity authorised in the Union, should be able to continue or start offering their services in the Union and should therefore benefit from a lighter regime, that is recognition. Where the third country ESG provider is subject to supervision, appropriate cooperation arrangements should be put in place in order to ensure the proper exchange of information with the relevant competent authority of the third country.

²⁶ Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).

Or. en

Amendment 13

Proposal for a regulation

Recital 21

Text proposed by the Commission

(21) To ensure a higher-level transparency, ESG rating providers should disclose information to the public on the methodologies, models and key rating assumptions which those providers use in their ESG rating activities and in each of their ESG ratings product. In light of the uses of ESG ratings by investors, the rating

Amendment

(21) To ensure a higher-level transparency, ESG rating providers should disclose information to the public on the methodologies, models and key rating assumptions which those providers use in their ESG rating activities and in each of their ESG ratings product. In light of the uses of ESG ratings by investors, the rating

products should explicitly disclose which dimension of the double materiality the rating addresses, whether it is both material financial risk to the rated entity and the material impact of the rated entity on the environment and society in general or whether it takes into account only one of them. They should also explicitly disclose whether the rating addresses other dimensions. For the same reason, ESG rating providers should provide more detailed information on the methodologies, models and key rating assumptions to subscribers of ESG ratings. That information should enable users of ESG ratings to perform their own due diligence when assessing whether to rely or not on those ESG ratings. ***Disclosure of information concerning models should however not reveal sensitive business information or impede innovation.***

products should explicitly disclose which dimension of the double materiality the rating addresses, whether it is both material financial risk to the rated entity and the material impact of the rated entity on the environment and society in general or whether it takes into account only one of them. They should also explicitly disclose whether the rating addresses other dimensions. For the same reason, ESG rating providers should provide more detailed information on the methodologies, models and key rating assumptions to subscribers of ESG ratings. That information should enable users of ESG ratings to perform their own due diligence when assessing whether to rely or not on those ESG ratings.

Or. en

Amendment 14

Proposal for a regulation Recital 21 a (new)

Text proposed by the Commission

Amendment

(21a) Information from the public domain, provided by civil society organisations, trade unions and journalists, is of key importance. However, rated entities might have business activities in jurisdictions where freedom of speech, freedom of assembly and trade union rights are not well respected, which impairs the quality of ESG ratings. ESG rating providers should therefore communicate the limitations of the information available to them.

Or. en

Amendment 15

Proposal for a regulation Recital 22

Text proposed by the Commission

(22) ESG rating providers should ensure that they provide ESG ratings that are independent, objective and of adequate quality. It is important to introduce organisational requirements ensuring the prevention and mitigation of potential conflicts of interests. To ensure their independence, ESG rating providers should avoid situations of conflict of interest and manage those conflicts adequately where they are unavoidable. ESG rating providers should disclose conflicts of interest in a timely manner. They should also keep records of all significant threats to the independence of the ESG rating provider and that of its employees and other persons involved in the rating process, and the safeguards applied to mitigate those threats. In addition, to avoid potential conflicts of interest, ESG rating providers should not be allowed to offer a number of other services including consulting services, credit ratings, benchmarks, investment activities, audit, or banking, insurance and reinsurance activities. Finally, to prevent, identify, eliminate or manage and disclose any conflicts of interest and ensure the quality, integrity and thoroughness of the ESG rating and review process at all times, ESG rating providers should establish appropriate internal policies and procedures in relation to employees and other persons involved in the rating process. Such policies and procedures should, in particular, include internal control mechanisms and a compliance function.

Amendment

(22) ESG rating providers should ensure that they provide ESG ratings that are independent, objective and of adequate quality. It is important to introduce organisational requirements ensuring the prevention and mitigation of potential conflicts of interests. To ensure their independence, ESG rating providers should avoid situations of conflict of interest and manage those conflicts adequately where they are unavoidable. ESG rating providers should disclose conflicts of interest in a timely manner. They should also keep records of all significant threats to the independence of the ESG rating provider and that of its employees and other persons involved in the rating process, and the safeguards applied to mitigate those threats. In addition, to avoid potential conflicts of interest, ESG rating providers should not be allowed to offer a number of other services including consulting services, credit ratings, benchmarks, investment activities, audit, or banking, insurance and reinsurance activities. ***Furthermore, entities that are part of a group to which an ESG rating provider belongs should not provide consulting or audit activities to rated entities.*** Finally, to prevent, identify, eliminate or manage and disclose any conflicts of interest and ensure the quality, integrity and thoroughness of the ESG rating and review process at all times, ESG rating providers should establish appropriate internal policies and procedures in relation to employees and other persons involved in the rating process. Such policies and procedures should, in particular, include internal control mechanisms and a compliance function.

Amendment 16**Proposal for a regulation****Article 1 – paragraph 1***Text proposed by the Commission*

This Regulation 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.

Amendment

This Regulation introduces a common regulatory approach to enhance the integrity, transparency, responsibility, *reliability, harmonisation, alignment with Union law*, good governance, independence *and quality* of ESG rating activities. 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 *and quality* requirements related to ESG ratings and rules on the organisation and conduct of ESG rating providers.

Or. en

Amendment 17**Proposal for a regulation****Article 2 – paragraph 2 – point b***Text proposed by the Commission*

(b) ESG ratings produced by regulated financial undertakings in the Union that are used for internal purposes or for providing in-house financial services and products;

Amendment

(b) ESG ratings produced by regulated financial undertakings in the Union that are used for internal purposes or for providing in-house financial services and products, *including services to other entities that are part of the same group*;

Or. en

Amendment 18

Proposal for a regulation

Article 2 – paragraph 2 – point i a (new)

Text proposed by the Commission

Amendment

(ia) the mandatory disclosures pursuant to Articles 6, 8 and 9 of Regulation (EU) 2019/2088;

Or. en

Amendment 19

Proposal for a regulation

Article 2 – paragraph 2 – point i b (new)

Text proposed by the Commission

Amendment

(ib) the disclosures pursuant to Articles 5, 6 and 8 of Regulation (EU) 2020/852;

Or. en

Amendment 20

Proposal for a regulation

Article 2 – paragraph 2 – point i c (new)

Text proposed by the Commission

Amendment

(ic) non-profit civil society organisations that compile scoreboards or rankings for non-commercial purposes and that make those rankings accessible free of charge;

Or. en

Amendment 21

Proposal for a regulation

Article 3 – paragraph 1 – point 1

Text proposed by the Commission

(1) ‘ESG rating’ means an opinion, a score or a combination of both, regarding an entity, a financial instrument, a financial product, or an undertaking’s ESG profile or characteristics or exposure to ESG risks or the impact on people, society and the environment, that are based on an established methodology and defined ranking system of rating categories and that are provided to third parties, irrespective of whether such ESG rating is explicitly labelled as ‘rating’ or ‘ESG score’;

Amendment

(1) ‘ESG rating’ means an opinion, a score or a combination of both, regarding an entity, a financial instrument, a financial product, or an undertaking’s ESG profile or characteristics or exposure to ESG risks or the impact on people, society and the environment, that are based on an established methodology and defined ranking system of rating categories and that are provided to third parties, irrespective of whether such ESG rating is explicitly labelled as ‘rating’ or ‘ESG score’, ***excluding ESG labels and controversy ratings***;

Or. en

Amendment 22

Proposal for a regulation

Article 3 – paragraph 1 – point 4

Text proposed by the Commission

(4) ‘ESG rating providers’ means a legal person whose occupation includes the offering and distribution of ESG ratings ***or scores on a professional basis***;

Amendment

(4) ‘ESG rating providers’ means a legal person whose occupation includes the offering and distribution of ESG ratings;

Or. en

Amendment 23

Proposal for a regulation

Article 3 – paragraph 1 – point 6

Text proposed by the Commission

(6) ‘rating analyst’ means a person who performs analytical functions **for the purpose of issuing ESG ratings**;

Amendment

(6) ‘rating analyst’ means a person who performs analytical functions **on an ESG profile or characteristics, exposure to ESG risks, or the impact of an entity, financial instrument, company or financial product on people, society and the environment** ;

Or. en

Amendment 24

Proposal for a regulation

Article 6 – paragraph 5 a (new)

Text proposed by the Commission

Amendment

5a. If no decision is adopted by ESMA within the period referred to in paragraph 3 or 4, as applicable, the applicant shall not be considered authorised to provide ESG ratings in the Union.

Or. en

Amendment 25

Proposal for a regulation

Article 9 – paragraph 2 – subparagraph 2

Text proposed by the Commission

Amendment

For the purposes of point (a), the Commission shall take into account whether the legal framework and supervisory practice of a third country ensures compliance with the IOSCO recommendations for ESG Ratings published in November 2021.

For the purposes of point (a), the Commission shall take into account whether the legal framework and supervisory practice of a third country ensures compliance with the IOSCO recommendations for ESG Ratings published in November 2021. **Compliance with those recommendations does not in itself constitute equivalence.**

Amendment 26

Proposal for a regulation

Article 9 – paragraph 4 – point a

Text proposed by the Commission

(a) the mechanism for exchanging information between ESMA and the competent authorities of third countries concerned, including access to all relevant information requested by ESMA regarding the ESG rating provider authorised *or* registered in that third country;

Amendment

(a) the mechanism for exchanging information between ESMA and the competent authorities of third countries concerned, including access to all relevant information requested by ESMA regarding the ESG rating provider authorised *and* registered in that third country;

Or. en

Amendment 27

Proposal for a regulation

Article 9 – paragraph 4 – point b

Text proposed by the Commission

(b) the mechanism for prompt notification to ESMA where a third country competent authority deems that the ESG rating provider authorised *or* registered in that third country and that is supervised by that third country competent authority is breaching the conditions of its authorisation or registration, or other national law in that third country;

Amendment

(b) the mechanism for prompt notification to ESMA where a third country competent authority deems that the ESG rating provider authorised *and* registered in that third country and that is supervised by that third country competent authority is breaching the conditions of its authorisation or registration, or other national law in that third country;

Or. en

Amendment 28

Proposal for a regulation

Article 10 – paragraph 1 – subparagraph 1 – point a a (new)

Text proposed by the Commission

Amendment

(aa) the ESG rating provider located in the Union fulfils the indicators of minimum substance set out in Article 7(1) of Council Directive laying down rules to prevent the misuse of shell entities for tax purposes and amending Directive 2011/16/EU;

Or. en

Amendment 29

Proposal for a regulation

Article 10 – paragraph 1 – subparagraph 1 – point a b (new)

Text proposed by the Commission

Amendment

(ab) the endorsement of the ESG rating does not impair the quality of the assessment of the rated entity or the arrangement of on-site reviews or inspections, if provided for in the ESG rating methodology used by the ESG rating provider;

Or. en

Amendment 30

Proposal for a regulation

Article 10 – paragraph 1 – subparagraph 2

Text proposed by the Commission

Amendment

For the purposes of point (b) of the first subparagraph, ESMA ***may consider that compliance of the provision of the ESG rating to be endorsed with the IOSCO recommendations for ESG ratings is equivalent to*** compliance with the requirements of this Regulation.

For the purposes of point (b) of the first subparagraph, ESMA ***shall examine*** compliance with the requirements of this Regulation, ***particularly those of Article 5 and Articles 14 to 25.***

Amendment 31

Proposal for a regulation

Article 11 – paragraph 2 – subparagraph 1

Text proposed by the Commission

Third country ESG rating providers that wish to be recognised as referred to in paragraph 1 shall comply with the requirements established in this Regulation and apply for recognition to ESMA. ***ESG rating providers may fulfil that condition by applying the IOSCO recommendations on ESG ratings provided that such application is equivalent to compliance with the requirements established in this Regulation.***

Amendment

Third country ESG rating providers that wish to be recognised as referred to in paragraph 1 shall comply with the requirements established in this Regulation and apply for recognition to ESMA.

Amendment 32

Proposal for a regulation

Article 14 – paragraph 5

Text proposed by the Commission

5. ESG rating providers shall adopt and implement internal due diligence policies and procedures that ensure that their business interests do not impair the independence or accuracy of the assessment activities.

Amendment

5. ESG rating providers shall adopt and implement internal due diligence policies and procedures that ensure that their business interests ***and remuneration policies*** do not impair the independence or accuracy of the assessment activities.

Amendment 33

Proposal for a regulation

Article 14 – paragraph 12

Text proposed by the Commission

Amendment

12. ESG rating providers shall not disclose information about their intellectual capital, intellectual property, know-how or the results of innovation that would qualify as trade secrets as defined in Article 2, point (1), of Directive (EU) 2016/943 of the European Parliament and of the Council⁵².

deleted

⁵² *Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure (OJ L 157, 15.6.2016, p. 1).*

Or. en

Amendment 34

Proposal for a regulation Article 15 – paragraph 1 a (new)

Text proposed by the Commission

Amendment

1a. Entities that are part of a group to which an ESG rating provider belongs shall not provide any of the following activities to rated entities:

- (a) consulting activities;**
- (b) audit activities.**

Those entities may provide activities to rated entities other than those referred to in paragraph 1a to the extent that appropriate safeguards are in place to prevent conflicts of interest, including measures referred to in Articles 23 and 24 of this Regulation.

Or. en

Amendment 35

Proposal for a regulation Article 15 – paragraph 1 b (new)

Text proposed by the Commission

Amendment

1b. Employees of ESG rating providers involved in the assessment process of an entity shall not provide any of the activities referred to in paragraph 1.

Or. en

Amendment 36

Proposal for a regulation Article 15 – paragraph 2 a (new)

Text proposed by the Commission

Amendment

2a. ESMA shall develop draft regulatory technical standards to specify the details of the safeguards to be implemented pursuant to paragraph 1b.

When developing the draft regulatory technical standards referred to in the first subparagraph, ESMA shall take into account the potential conflicts of interest for the provision of ESG ratings and credit ratings that could arise between the rated entity and the rating entity as well as between their employees.

ESMA shall submit the draft regulatory technical standards referred to in the first subparagraph to the Commission by XX XX XXXX.

Power is delegated to the Commission to supplement this Regulation by adopting the regulatory technical standards referred to in the first subparagraph in accordance with Articles 10 to 14 of Regulations (EU) No 1093/2010, (EU) No

Amendment 37

Proposal for a regulation Article 16 – paragraph 3

Text proposed by the Commission

3. The persons referred to in paragraph 1 shall not buy or sell any financial instrument issued, guaranteed, or otherwise supported by any rated entity other than holdings in diversified collective investment schemes, including managed funds, nor engage in any transaction in such financial instruments.

Amendment

3. The persons referred to in paragraph 1 shall not buy or sell any financial instrument issued, guaranteed, or otherwise supported by any rated entity **or any entity within the group of the rated entity**, other than holdings in diversified collective investment schemes, including managed funds, nor engage in any transaction in such financial instruments.

Amendment 38

Proposal for a regulation Article 16 – paragraph 4 – point c

Text proposed by the Commission

(c) have had a recent employment, business or other relationship with the rated entity that may cause or may be generally perceived as causing a conflict of interest.

Amendment

(c) have had a recent employment, business or other relationship with the rated entity, **or any entity within the group of the rated entity, within a period of at least three years**, that may cause or may be generally perceived as causing a conflict of interest.

Amendment 39

Proposal for a regulation Article 16 – paragraph 8

Text proposed by the Commission

8. Persons as referred to in paragraph 1 shall not take up a **key management** position within a rated entity which they have been involved in rating for **six months** after the provision of such rating.

Amendment

8. Persons as referred to in paragraph 1 shall not take up a position within a rated entity which they have been involved in rating for **one year** after the provision of such rating.

Or. en

Amendment 40

Proposal for a regulation Article 16 – paragraph 8 a (new)

Text proposed by the Commission

Amendment

8a. ESG rating providers shall ensure that, when carrying out an assessment, the persons referred to in paragraph 1 shall be independent of the rated entity and shall not be involved in the decision-taking of the rated entity during the period of the assessment leading to the issuance of an ESG rating and for one year thereafter.

ESG rating providers shall take all reasonable steps to ensure that, when the persons referred to in paragraph 1 participate in or otherwise influence the determination of an ESG rating of any rated entity, their independence is not affected by any existing or potential conflict of interest or business or other direct or indirect relationship involving those persons.

The persons referred to in paragraph 1 shall not participate in or otherwise influence the determination of an ESG rating of any rated entity if there is any threat of self-review, self-interest,

advocacy, familiarity or intimidation created by financial, personal, business, employment or other relationships between those persons and the rated entity as a result of which an objective, reasonable and informed third party, taking into account the safeguards applied, would conclude that those persons' independence is compromised.

Or. en

Amendment 41

Proposal for a regulation Article 16 – paragraph 8 b (new)

Text proposed by the Commission

Amendment

8b. *The persons referred to in paragraph 1 shall not solicit or accept pecuniary or non-pecuniary gifts or favours from a rated entity unless an objective, reasonable and informed third party would consider the value thereof as trivial or inconsequential.*

Or. en

Amendment 42

Proposal for a regulation Article 16 – paragraph 8 c (new)

Text proposed by the Commission

Amendment

8c. *If, during the period in which the persons referred to in paragraph 1 are involved in the assessment activities, a rated entity merges with, or acquires, another entity, the ESG rating provider shall ensure that those persons identify and evaluate any current or recent interests or relationships which, taking into account available safeguards, could*

compromise those persons' independence and ability to continue being involved in the assessment activities after the effective date of the merger or acquisition.

Or. en

Amendment 43

Proposal for a regulation Article 16 a (new)

Text proposed by the Commission

Amendment

Article 16a

Use of multiple ESG rating providers

- 1. Where an entity seeks an ESG rating from at least two ESG rating providers, it shall appoint at least one ESG rating provider with no more than 5 % market share in the Union.*
- 2. ESMA shall annually publish on its website a list of ESG rating providers listed in the register referred to in Article 13(1), indicating their total market share in the Union.*
- 3. For the purposes of this Article, total market share shall be measured by reference to the annual turnover generated from ESG rating activities and ancillary services, at group level in the Union.*

Or. en

Amendment 44

Proposal for a regulation Article 17 – paragraph 1

Text proposed by the Commission

Amendment

1. ESG rating providers shall record

1. ESG rating providers shall record

their ESG rating activities. Those records shall contain the information listed in *Annex II*.

their ESG rating activities. Those records shall contain the information listed in *Annexes I and II*.

Or. en

Amendment 45

Proposal for a regulation Article 18 – paragraph 1 a (new)

Text proposed by the Commission

Amendment

1a. The complaint procedures referred to in paragraph 1 shall be open and accessible, and shall include the possibility for anonymous complaints.

Or. en

Amendment 46

Proposal for a regulation Article 18 – paragraph 2 – point a – point 1 a (new)

Text proposed by the Commission

Amendment

(1a) the reliability of the information published in accordance with Annex III;

Or. en

Amendment 47

Proposal for a regulation Article 21 – paragraph 1

Text proposed by the Commission

Amendment

1. ESG rating providers shall disclose on their website the methodologies, models and key rating assumptions they use in their ESG rating activities, including the

1. ESG rating providers shall disclose on their website the methodologies, models and key rating assumptions they use in their ESG rating activities, including the

information referred to in *point 1 of* Annex III.

information referred to in Annex III.

Or. en

Amendment 48

Proposal for a regulation Article 21 – paragraph 1 a (new)

Text proposed by the Commission

Amendment

1a. Separate E, S and G ratings shall be provided rather than a single ESG metric that aggregates E, S and G factors. ESG rating providers shall provide the disclosures referred to in this Article and in Article 22 separately for each factor.

Or. en

Amendment 49

Proposal for a regulation Article 21 – paragraph 2

Text proposed by the Commission

Amendment

2. ESMA shall develop draft regulatory technical standards to specify further the elements that are to be disclosed in accordance with paragraph 1.

2. ESMA shall develop draft regulatory technical standards to specify further the elements that are to be disclosed in accordance with paragraph 1 ***and the presentation of information.***

Or. en

Amendment 50

Proposal for a regulation Article 21 – paragraph 3 – subparagraph 1

Text proposed by the Commission

ESMA shall submit those draft regulatory technical standards to the Commission **by XX XXXX XXXX**.

Amendment

ESMA shall submit those draft regulatory technical standards to the Commission ... **[6 months after the date of entry into force of this Regulation]**.

Or. en

Amendment 51

Proposal for a regulation

Article 21 – paragraph 3 – subparagraph 2 a (new)

Text proposed by the Commission

Amendment

The ESG rating provider shall provide the information referred to in Annex III as soon as it has been authorised or recognised pursuant to this Regulation. The ESG rating provider shall make the changes needed following the entry into force of the regulatory technical standards referred to in the second subparagraph of this paragraph.

Or. en

Amendment 52

Proposal for a regulation

Article 22 – title

Text proposed by the Commission

Amendment

Disclosures to subscribers of ESG ratings and rated entities

Disclosures to **users of ESG ratings**, subscribers of ESG ratings and rated entities

Or. en

Amendment 53

Proposal for a regulation Article 22 – paragraph 1

Text proposed by the Commission

1. ESG rating providers shall disclose, as a minimum, the information referred to in point 2 of Annex III to their subscribers and to the rated entities.

Amendment

1. ESG rating providers shall disclose, as a minimum, the information referred to in point 2 of Annex III to their subscribers and to the rated entities. ***Where ESG rating providers publicly disclose ESG ratings, they shall publicly disclose the underlying information referred to in point 2 of Annex III for those specific ratings.***

Or. en

Amendment 54

Proposal for a regulation Article 22 – paragraph 1 a (new)

Text proposed by the Commission

Amendment

1a. Where subscribers of ESG ratings or rated entities disclose or distribute the ESG ratings, they shall disclose the information referred to in point 2 of Annex III to the persons receiving the ESG ratings or provide a link to the website of the ESG rating providers where that information is available.

Where subscribers of ESG ratings or rated entities publicly disclose ESG ratings, the information referred to in point 2 of Annex III shall be made publicly available.

Or. en

Amendment 55

Proposal for a regulation Article 22 – paragraph 2

Text proposed by the Commission

2. ESMA shall develop draft regulatory technical standards to specify further the elements that are to be disclosed in accordance with paragraph 1.

Amendment

2. ESMA shall develop draft regulatory technical standards to specify further the elements that are to be disclosed in accordance with paragraph 1 **and the presentation of information.**

Or. en

Amendment 56

Proposal for a regulation Article 22 – paragraph 3 – subparagraph 1

Text proposed by the Commission

ESMA shall submit those draft regulatory technical standards to the Commission by **XX XXXX XXXX.**

Amendment

ESMA shall submit those draft regulatory technical standards to the Commission by **... [6 months after the date of entry into force of this Regulation].**

Or. en

Amendment 57

Proposal for a regulation Article 23 – paragraph 3 – subparagraph 1

Text proposed by the Commission

Where there is a risk of a conflict of interest within an ESG rating provider due to the ownership structure, controlling interests, or activities of that ESG rating provider, of any entity owning or controlling the ESG rating provider, of an entity that is owned or controlled by the ESG rating provider, or of any the ESG rating provider's affiliates, ESMA **may**

Amendment

Where there is a risk of a conflict of interest within an ESG rating provider due to the ownership structure, controlling interests, or activities of that ESG rating provider, of any entity owning or controlling the ESG rating provider, of an entity that is owned or controlled by the ESG rating provider, or of any the ESG rating provider's affiliates, ESMA **shall**

require the ESG rating provider to take measures to mitigate that risk. Such measures may include the establishment of an independent oversight function representing stakeholders, including users of the ESG ratings *and* contributors to such ratings, in a balanced manner.

take action. *ESMA shall* require the ESG rating provider to take measures to mitigate that risk. Such measures may include the establishment of an independent oversight function representing stakeholders, including users of the ESG ratings, contributors to such ratings, **trade unions, relevant civil society organisations and affected communities**, in a balanced manner.

Or. en

Amendment 58

Proposal for a regulation

Article 23 – paragraph 3 – subparagraph 1 a (new)

Text proposed by the Commission

Amendment

A shareholder or a member of an ESG rating provider holding at least 5 % of either the capital or the voting rights in that ESG rating provider, or in a company which has the power to exercise control or a dominant influence over that ESG rating provider, shall be prohibited from doing any of the following:

- (a) holding 5 % or more of the capital of any other ESG rating provider;***
- (b) having the right or the power to exercise 5 % or more of the voting rights in any other ESG rating provider;***
- (c) having the right or the power to appoint or remove members of the administrative or supervisory board of any other ESG rating provider;***
- (d) being a member of the administrative or supervisory board of any other ESG rating provider;***
- (e) exercising or having the power to exercise control or a dominant influence over any other ESG rating provider.***

Amendment 59

Proposal for a regulation

Article 23 – paragraph 3 – subparagraph 2

Text proposed by the Commission

Where a conflict of interest as referred to in the first subparagraph cannot be adequately managed, **ESMA may** require the ESG rating provider to cease the activities or relationships that create the conflict of interest, or **may** require the ESG rating provider to cease providing the ESG ratings.

Amendment

Where ***there is a risk of*** a conflict of interest as referred to in the first subparagraph ***and it*** cannot be adequately managed ***through specific risk mitigation***, **ESMA shall** require the ESG rating provider to cease the activities or relationships that create the conflict of interest, or ***shall*** require the ESG rating provider to cease providing the ESG ratings.

Or. en

Amendment 60

Proposal for a regulation

Article 23 – paragraph 4

Text proposed by the Commission

4. ESG rating providers shall disclose **to ESMA** all existing or potential conflicts of interest, including conflicts of interest arising from the ownership or control of the ESG rating providers.

Amendment

4. ESG rating providers shall **publicly** disclose all existing or potential conflicts of interest, including conflicts of interest arising from the ownership or control of the ESG rating providers.

Or. en

Amendment 61

Proposal for a regulation

Article 45 – paragraph 2

Text proposed by the Commission

2. The power to adopt delegated acts **referred to in Articles 5, 21, 22 and 40** shall be conferred on the Commission for **an indeterminate** period of **time from [PO: Please insert** date of entry into force].

Amendment

2. The power to adopt delegated acts shall be conferred on the Commission for a period of **5 years from** „, [date of entry into force **of this Regulation**]. **The Commission shall draw up a report in respect of the delegation of power not later than nine months before the end of that period. The delegation of power shall be tacitly extended for periods of an identical duration, unless the European Parliament or the Council opposes such extension not later than three months before the end of each period.**

Or. en

Amendment 62

**Proposal for a regulation
Article 45 – paragraph 6**

Text proposed by the Commission

6. A delegated act adopted pursuant to Articles 7, 33, 34 and 40 shall enter into force only if no objection has been expressed either by the European Parliament or by the Council within a period of **two** months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by [**two** months] at the initiative of the European Parliament or of the Council.

Amendment

6. A delegated act adopted pursuant to Articles 7, 33, 34 and 40 shall enter into force only if no objection has been expressed either by the European Parliament or by the Council within a period of **3** months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by [**3** months] at the initiative of the European Parliament or of the Council.

Or. en

Amendment 63

Proposal for a regulation Article 46

Text proposed by the Commission

Amendment

Article 46

deleted

Amendments to Annexes

To take account of developments, including international developments, on financial markets, in particular in relation to sustainable finance, the Commission may adopt, by means of delegated acts in accordance with Article 45, measures to amend the Annexes.

Or. en

Amendment 64

Proposal for a regulation Article 49 – paragraph 1 a (new)

Text proposed by the Commission

Amendment

1a. By ... [3 years after the date of entry into force of this Regulation], the Commission shall, in close cooperation with ESMA, publish a report considering whether the scope of this Regulation is sufficient to ensure confidence in the market and reach its objectives, including the need to extend the scope to ESG data providers. The report may be accompanied, if appropriate, by a legislative proposal.

By ... [3 years after the date of entry into force of this Regulation], the Commission shall publish a report on the functioning of the ESG rating market, including whether its general principles, including the non-interference principle referred to in Article 26, have sufficiently contributed to improving the quality and reliability of ESG ratings and reduced the use of

misleading ESG ratings. The Commission shall also consider the need to set out in this Regulation minimum requirements regarding the content of ESG ratings and their methodologies. The report may be accompanied, if appropriate, by a legislative proposal.

Or. en

Amendment 65

Proposal for a regulation Annex I – paragraph 1 – point d

Text proposed by the Commission

(d) the ownership structure of the applicant;

Amendment

(d) the ownership structure of the applicant *at group level*;

Or. en

Amendment 66

Proposal for a regulation Annex I – paragraph 1 – point d a (new)

Text proposed by the Commission

Amendment

(da) the identity of entities within the ownership structure that would provide ESG rating activities listed in Article 15(1) or any other services that create risks of conflicts of interest within the ESG rating activities to be provided by the applicant;

Or. en

Amendment 67

Proposal for a regulation Annex I – paragraph 1 – point f

Text proposed by the Commission

(f) the number of the analysts, employees and other persons directly involved in assessment activities, and their level of experience and training working for the applicant and their level of experience and training;

Amendment

(f) the number of the analysts, employees and other persons directly involved in assessment activities ***with the purpose of providing ESG ratings***, and their level of experience and training working for the applicant and their level of experience and training;

Or. en

Amendment 68

Proposal for a regulation

Annex I – paragraph 1 – point f a (new)

Text proposed by the Commission

Amendment

(fa) the number of entities, financial products and instruments for which the applicant will provide ESG ratings;

Or. en

Amendment 69

Proposal for a regulation

Annex I – paragraph 1 – point g a (new)

Text proposed by the Commission

Amendment

(ga) information on whether and how the methodologies are considered as being based on scientific evidence, including recommendations of the Intergovernmental Panel on Climate Change (IPCC) and the European Scientific Advisory Board on Climate Change;

Or. en

Amendment 70

Proposal for a regulation Annex I – paragraph 1 – point g b (new)

Text proposed by the Commission

Amendment

(gb) a description of data processes (data sources, estimation of input data in case of unavailability, frequency of data updates, data quality controls);

Or. en

Amendment 71

Proposal for a regulation Annex I – paragraph 1 – point j a (new)

Text proposed by the Commission

Amendment

(ja) general information on criteria to be used for establishing fees to clients, specifying the various elements taken into consideration, such as the involvement of data analysts, IT equipment, purchasing data;

Or. en

Amendment 72

Proposal for a regulation Annex II – Part 1 – paragraph 1 – point a

Text proposed by the Commission

Amendment

(a) for each ESG rating ***in the form of an opinion***, the identity of the rating analysts participating in the determination of the ESG rating, the identity of the persons who have approved the ESG rating, information as to whether the ESG rating was solicited or unsolicited, and the date on which the ESG rating action was

(a) for each ESG rating, ***where applicable***:

taken;

(1) the identity of the rating analysts participating in the determination of the ESG rating, the identity of the persons who have approved the ESG rating, information as to whether the ESG rating was solicited or unsolicited, and the date on which the ESG rating action was taken;

(2) *the identity of the persons responsible for the development of the rule-based methodology, and the identity of the persons who have approved the rating methodology;*

Or. en

Amendment 73

Proposal for a regulation Annex II – Part 1 – paragraph 1 – point b

Text proposed by the Commission

Amendment

(b) *for each ESG rating in the form of a score, the identity of the persons responsible for the development of the rule-based methodology, and the identity of the persons who have approved the rating methodology;*

deleted

Or. en

Amendment 74

Proposal for a regulation Annex III – Part 1 – paragraph 1 – point a

Text proposed by the Commission

Amendment

(a) high level overview of the rating methodologies used (and changes thereto), including whether analysis is backward-looking or forward-looking;

(a) high level overview of the rating methodologies used (and changes thereto), including whether analysis is backward-looking or forward-looking **and the time horizon covered;**

Amendment 75

Proposal for a regulation Annex III – Part 1 – paragraph 1 – point b

Text proposed by the Commission

(b) high level overview of data processes (data sources, including *if they are public or non-public, and if they are sourced from sustainability statements required by Directive (EU) 2022/2464*, estimation of input data in case of unavailability, frequency of data updates);

Amendment

(b) ***data sources including whether data is sourced from information disclosure under Directive 2022/2464 and Regulation (EU) 2019/2088, and whether sources are public or non-public and a*** high level overview of data processes ***with*** data sources, including if they are estimation of input data in case of unavailability, frequency of data updates;

Or. en

Amendment 76

Proposal for a regulation Annex III – Part 1 – paragraph 1 – point c

Text proposed by the Commission

(c) information on ***whether and*** how the methodologies are based on scientific evidence;

Amendment

(c) information on how the methodologies are based on scientific evidence;

Or. en

Amendment 77

Proposal for a regulation Annex III – Part 1 – paragraph 1 – point d

Text proposed by the Commission

(d) information on the ratings' objective, clearly marking whether the rating is assessing ***risks, impacts*** or some

Amendment

(d) information on the ratings' objective, clearly marking whether the rating is assessing ***impact materiality***,

other dimensions;

financial materiality or some other dimensions ***and, where the ESG rating assesses only financial materiality, a clear warning about the limitations of the methodology and the conclusions that can be drawn from that rating;***

Or. en

Amendment 78

Proposal for a regulation

Annex III – Part 1 – paragraph 1 – point e

Text proposed by the Commission

(e) the rating's scope – i.e., ***is it an aggregated rating (aggregating E and S and G factor), or a rating of individual factors or*** specific issues (e.g., transition risks);

Amendment

(e) the rating's scope – i.e., ***does it cover a specific factor (E, S, or G) or does it cover*** specific issues (e.g. transition risks);

Or. en

Amendment 79

Proposal for a regulation

Annex III – Part 1 – paragraph 1 – point f

Text proposed by the Commission

(f) ***in the case of an aggregated ESG rating, weighting of the three overarching ESG factors categories (e.g., 33% Environment, 33% Social, 33% Governance), and the explanation of the weighting method, including weight per individual E, S and G factors;***

Amendment

deleted

Or. en

Amendment 80

Proposal for a regulation

Annex III – Part 1 – paragraph 1 – point h

Text proposed by the Commission

(h) information on whether the rating is expressed in absolute or relative values,

Amendment

(h) information on whether the rating is expressed in absolute or relative values, **and, if the ESG rating is expressed in relative value, a clear warning about the limitations of the methodology and the conclusions that can be drawn from that rating;**

Or. en

Amendment 81

Proposal for a regulation

Annex III – Part 1 – paragraph 1 – point i

Text proposed by the Commission

(i) Where applicable, reference to the use of Artificial Intelligence (AI) in the data collection or rating/scoring process;

Amendment

(i) Where applicable, reference to the use of Artificial Intelligence (AI) in the data collection or rating/scoring process, **including information about current limitations or risks of those tools;**

Or. en

Amendment 82

Proposal for a regulation

Annex III – Part 1 – paragraph 1 – point k

Text proposed by the Commission

(k) any limitation in **data sources used** for the construction of ESG ratings.

Amendment

(k) **data sources used and** any limitation in **relation to them** for the construction of ESG ratings;

Or. en

Amendment 83

Proposal for a regulation

Annex III – Part 1 – paragraph 1 – point k a (new)

Text proposed by the Commission

Amendment

(ka) in sufficient detail taking into account the nature of any conflicts of interest that arise, the general nature or sources of conflicts of interest and the steps taken to mitigate those risks;

Or. en

Amendment 84

Proposal for a regulation

Annex III – Part 1 – paragraph 1 – point k b (new)

Text proposed by the Commission

Amendment

(kb) where the ESG rating includes KPIs covering the E factor, information on whether that rating considers the alignment of the business model and strategy of the company with the objectives of the transition to a sustainable economy and with the limiting of global warming, in line with the Paris Agreement pursuant to the latest recommendations of the IPCC and the European Scientific Advisory Board on Climate Change;

Or. en

Amendment 85

Proposal for a regulation

Annex III – Part 1 – paragraph 1 – point k c (new)

Text proposed by the Commission

Amendment

(kc) where the ESG rating covers the S factor, information on whether that rating considers the compliance of the rated entity with International Labour Organisation core conventions on Right to Organise and Collective Bargaining as well as compliance with relevant due diligence legislation;

Or. en

Amendment 86

Proposal for a regulation

Annex III – Part 1 – paragraph 1 – point k d (new)

Text proposed by the Commission

Amendment

(kd) where the ESG rating covers the G factor, whether the rated entity aligns with international standard on tax evasion and avoidance and whether the remuneration criteria for management align with the sustainability strategy of the entity;

Or. en

Amendment 87

Proposal for a regulation

Annex III – Part 1 – paragraph 1 – point k e (new)

Text proposed by the Commission

Amendment

(ke) any limitation on the information available to ESG rating providers.

Or. en

Amendment 88

Proposal for a regulation

Annex III – Part 2 – paragraph 1 – introductory part

Text proposed by the Commission

In addition to the elements referred to in Article 22 of the Regulation, ESG rating providers shall make available the following information to European regulated financial undertakings **and to undertakings in the scope of Directive 2013/34/EU that are subject of such rating:**

Amendment

In addition to the elements referred to in Article 21 of the Regulation, ESG rating providers **and, where relevant, ESG rating subscribers** shall make available the following information to European regulated financial undertakings:

Or. en

Amendment 89

Proposal for a regulation

Annex III – Part 2 – paragraph 1 – point a – point 2

Text proposed by the Commission

(2) whether the analysis is backward-looking or forward-looking,

Amendment

(2) whether the analysis is backward-looking or forward-looking **and the time horizon covered,**

Or. en

Amendment 90

Proposal for a regulation

Annex III – Part 2 – paragraph 1 – point a – point 3

Text proposed by the Commission

(3) **which metrics have been selected as relevant,**

Amendment

deleted

Or. en

Amendment 91

Proposal for a regulation

Annex III – Part 2 – paragraph 1 – point a – point 4

Text proposed by the Commission

(4) the relevant KPIs *per E, S and G factor*, and weighting method,

Amendment

(4) the relevant KPIs, and weighting method,

Or. en

Amendment 92

Proposal for a regulation

Annex III – Part 2 – paragraph 1 – point a – point 7 a (new)

Text proposed by the Commission

Amendment

(7a) where the ESG rating includes KPIs covering the E factor, the extent to which the ESG rating is correlated with the percentage of taxonomy-alignment under Regulation (EU) 2020/852, together with an explanation of any significant deviations therefrom,

Or. en

Amendment 93

Proposal for a regulation

Annex III – Part 2 – paragraph 1 – point b – point 5 a (new)

Text proposed by the Commission

Amendment

(5a) whether the data used has been subject to an assurance review,

Or. en

Amendment 94

Proposal for a regulation

Annex III – Part 2 – paragraph 1 – point b a (new)

Text proposed by the Commission

Amendment

(ba) the timing of source data collection;

Or. en

Amendment 95

Proposal for a regulation

Annex III – Part 2 – paragraph 1 – point c

Text proposed by the Commission

Amendment

(c) where applicable, information about engagement with rated entities;

(c) information about engagement with rated entities including whether on-site reviews or inspections have been performed by the ESG rating provider and at what frequency;

Or. en

Amendment 96

Proposal for a regulation

Annex III – Part 2 – paragraph 1 – point c a (new)

Text proposed by the Commission

Amendment

(ca) a statement on the limitations of the ratings, including information about engagement with the various stakeholders of a rated entity and how contradictory, incomplete or subjective information is handled;

Or. en

Amendment 97

Proposal for a regulation
Annex III – Part 2 – paragraph 1 a (new)

Text proposed by the Commission

Amendment

***The information referred to in Part 2 of
this Annex shall be specific to each ESG
rating distributed.***

Or. en

EXPLANATORY STATEMENT

The debate surrounding ESG ((Environment, Social, Governance) ratings and its excesses reminds us of the need to implement a clear and sound framework for ESG criteria and their providers, in order for them to become a useful tool for redirecting investment towards more sustainable companies and projects.

In this regard, the European Commission's proposal for the regulation of ESG ratings providers is therefore timely. It aims to introduce a set of common rules for these essential actors in responsible investment.

The primary mission of ESG assessment is to provide investors with information about a company's extra-financial performance in environmental, social and governance matters. Today, most of this mission consists of assessing the risks and opportunities related to environmental and social transformations, particularly on the company's accounts. This is what we call financial materiality. However, such an approach completely ignores the impact of the company's activities on the environment and society: the impact materiality. Those two approaches lead to different methodologies and, ipso facto, different results when assessing a company's performance.

Furthermore, the UN Principles for Responsible Investment's initiative have garnered support from over 3,000 signatories representing assets under management exceeding EUR 100 trillion. This widespread adoption presents the risk of mis-selling and greenwashing if ESG data lacks standardized and harmonized criteria. Therefore, ensuring accurate and reliable ESG information is key.

While your Rapporteur keeps the non-interference clause suggested by the Commission as regards to the methodologies used by rating agencies, the disclosure requirements in the Regulation should be more stringent and instructive. It should at all times be clear what types of materiality are considered and whether the rating is referring to absolute or relative performance. Rating providers should also refrain from aggregating the E, S and G scores, as this could obscure poor performance on any of these individual metrics. For each of these metrics, some high level minimum disclosure requirements are proposed referring to relevant international norms and standards. Furthermore, rating providers should clearly communicate about the limitations their ratings might have.

Encouraging competition among ESG rating providers and fostering an environment where smaller rating providers can enter the market is essential. Consolidation within the industry can lead to higher prices, barriers to entry, reduced competition, limited innovation, decreased geographical diversity in providers, and inadequate coverage of smaller issuers. Entities seeking multiple ratings should prioritize at least one provider with a market share below 5% to ensure diversity and competitiveness in the marketplace. Furthermore, the Rapporteur seeks to strengthen provisions regarding avoidance of conflict of interest and authorisation and use of ratings from third countries

Several landmark legislative initiatives, including the Sustainable Finance Disclosure Regulation, the Taxonomy Regulation, and the Corporate Sustainability Reporting Directive,

have been introduced to improve the availability, quality, and consistency of ESG requirements throughout the financial market value chain. These public initiatives have reduced gaps in data availability and comparability. ESG rating providers should actively incorporate this standardized data into their assessments.

In their pursuit of evaluating companies' ESG profiles and making sustainable investment and financing decisions, various financial institutions such as credit institutions, investment firms, insurance undertakings, assurance undertakings, and reinsurance undertakings rely on both external ESG ratings and external ESG data products. However, it's crucial to note that financial institutions bear responsibility in cases of greenwashing accusations related to their financial products. In contrast, the distribution of ESG information across entities or financial products, which depends on proprietary or established methodologies, including datasets covering emissions and controversies, falls outside the purview of the proposed regulation.

Another key issue, recognised by the European Commission itself, is that the ESG ratings market currently suffers from a lack of transparency, with some companies producing useful, reliable evaluations, while others remain opaque and even misleading. For this reason, we need to improve the reliability and transparency of ESG ratings activities.

We also need to clarify the objectives of the rating providers. ESG analysts too often limit themselves to assessing financial materiality. But a complete and relevant evaluation cannot spare analysing the consequences of the company's activity on the rest of society.

In summary, these elements underscore the importance of regulating ESG ratings providers and promoting transparency, reliability, and competition in the industry. These changes may seem technical but they are in fact absolutely essential if we want ESG criteria to finally be properly used and useful to all : one important, yet insufficient on its own, tool for the ecological transition and the European Green Deal.