

ESG Ratings Regulation progresses – asset managers to keep watch

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UPDATE: On 19 November 2024, the Council of the EU issued a press release confirming it had adopted the EU Ratings Regulation. The next step is that the Regulation will be published in the Official Journal of the EU and enter into force 20 days later – applying 18 months after its entry into force.

The European Council of the European Union has on 8 November published the text of the Regulation on the transparency and integrity of environmental, social and governance (ESG) rating activities (the “Regulation”).

The next step is for the European Council to formally adopt the Regulation, which will then enter into force 20 days after its publication in the Official Journal of the European Union. It will apply 18 months following its entry into force, expected to be in 2026.

This follows the European Parliament and the Council reaching political agreement in February 2024 and the European Parliament voting to adopt the Regulation in April 2024.

As a recap, the purpose of the Regulation is to support investors and other stakeholders having access to reliable and comparable ESG rating objectives (what is assessed) and methodologies (how it is assessed).

In the broad drafting of the Regulation, asset managers, beyond ratings agencies, will also need to keep watch and work out if they are either:

- an “ESG Ratings Provider” operating in the EU; and/or
- providing ESG Ratings within marketing communications.

If either limb is met there could be organizational, authorization/endorsement or disclosure requirements that may apply.

ESMA is tasked with drafting supporting standards on the Regulation to support detailing the requirements.

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