Published on *The National Law Review* https://natlawreview.com

# EU Seeks to Improve ESG Ratings

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On November 19, 2024, the EU Council adopted a new regulation on ESG ratings, which “aim[s] at making rating activities in the EU more consistent, transparent, and comparable in order to boost investors' confidence in sustainable financial products.” There are a number of significant aspects to this regulation, including that: (1) ESG ratings providers in the EU must be “authorized and supervised by the European Securities and Markets Authority (ESMA)”; (2) ESG ratings providers must use “rating methodologies . . . that are rigorous, systematic, independent, and capable of justification and shall apply those rating methodologies continuously and in a transparent manner”; (3) “ESG ratings providers shall disclose on their website, as a minimum, the methodologies, models and key rating assumptions that they use in their ESG rating activities"; and (4) “Separate E, S, and G ratings shall be provided rather than a single ESG rating that aggregates E, S, and G factors.” Broadly speaking, the EU is attempting to impose order and comprehensive regulations on the field of ESG ratings.

Such order would likely be welcomed by many participants in the market for ESG ratings. Until now, there has been a distinct lack of comparability among ESG ratings, and a lack of congruence as to what rating to assign to a particular company or product. If the EU's regulatory scheme is successful in promoting a harmonized standard through transparency and regulatory action, that would likely increase the overall utility of ESG ratings and eliminate certain inefficiencies currently present in that market. Further, the willingness of EU regulators to venture into this complex issue demonstrates yet again how the EU is becoming a leader in ESG, while other jurisdictions, including the United States, are not as advanced.

> The Council today adopted a new regulation on environmental, social and governance (ESG) rating activities. The new rules aim at making rating activities in the EU more consistent, transparent and comparable in order to boost investors’ confidence in sustainable financial products.
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> www.consilium.europa.eu/...

National Law Review, Volume XIV, Number 354