Making ESG ratings fit for purpose and greenwashing-proof

Summary

With the recent publication of a proposal on ESG ratings and sustainability risks in credit ratings, the European Commission aims to tackle the eagerly debated issue of the consistency, quality and usefulness of ESG ratings. Indeed, in the past few years, **a consensus has emerged on the need to better regulate ESG ratings**. The ESG rating market is characterized by concentration and a lack of transparency, leading to widespread confusion around their meaning and potential use. While ESG ratings are often used by investors as a proxy to assess and consider the environmental and social impact of companies, this is not what they should be used for, as they are rarely designed for this purpose. When used to consider the sustainability of activities, ratings can quickly turn to powerful greenwashing tools.

While the European Commission proposal addresses some of the flaws of ESG ratings and the ESG rating market – with improvements in transparency, ESG provider supervision and potential conflicts of interest – it fails to remedy the fundamental problems. **In particular, the Commission discarded "at an early stage" the harmonization of methodologies and setting minimum requirements on the content of ESG ratings[1]. However, without these requirements, along with additional transparency measures, ESG ratings will remain of drastically variable quality and continue to drive greenwashing.**

[11] European Commission. 2023. *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*. European Commission.

In this context, Reclaim Finance recommends the ESG rating regulation be amended to:

1. **Enable ESG rating users to understand what E, S and G mean by disaggregating ratings:**
    - **Separately report on the main components of E, S and G factors.**
    - **For E, S and G respectively, provide minimum information on:**
        a. Whether the rating addresses impact, risk ("single materiality",) or both ("double materiality");
        b. Whether the rating is expressed as an absolute or relative value;
        c. The objectives of the rating, and the international standards and scientific evidence on which it is based;
        d. The exposure to any activities or companies that represent a significant risk to the objectives mentioned in c), and more broadly to international goals, such as limiting global warming to 1.5°C.

2. **Establish baseline standards for "E", "S" and "G" in ESG ratings:**
    - **Ensure that "E" means alignment with the 1.5°C target set by the Paris Agreement. To do so, the E factor must take into consideration:**
        a. The need to immediately stop fossil fuel production development;
        b. The need to immediately stop the development of other activities incompatible with the 1.5°C target (such as coal-based steel production and fossil fuel-based power generation);
        c. The sufficient reduction of greenhouse gas (GHG) emissions across all scopes;
        d. The adoption of a credible climate transition plan to align all activities with the 1.5°C target.

    - Ensure that "S" is at least aligned with the core International Labour Organization (ILO) standards and UN Guiding Principles on Business and Human Rights.
    - Ensure that "G" is at least aligned with the G20/OECD Principles of Corporate Governance and the UN Convention Against Corruption.
    - Ensure that the baseline standards represent a significant weight within each E, S and G factor.

3. **Establish minimum weighting requirements when aggregating E, S and G factors:**
    - **Ensure that the E factor makes up at least 33% of the aggregated ESG rating.**
    - **Ensure that the S and G factors always constitute at least 25% of the aggregated ESG rating.**

This note paper on the joint report published by Positive Money Europe, WWF and Reclaim Finance[2], as well as on a specific briefing from Finance Watch[3].

A consensus: ESG ratings must be standardized and transparent

For years, financial players, experts, regulators and NGOs have pointed out major issues with ESG ratings. Leaving aside issues related to the dominance of a few major providers in the ESG rating market and potential conflicts of interest,[4] these problems mainly originate from a lack of standardization and transparency of ESG rating methodologies that opens the door to massive greenwashing.

a. *A blatant lack of standardization and transparency...*

First, there is no agreed-upon vocabulary covering what the "environmental", "social" and "governance" factors of ESG ratings mean, and no consistency of terms across products or service providers.[5] **Providers utilize "ESG" as a term to designate different methodologies and objectives,[6] leaving stakeholders with varying understanding of what the ESG rating**

[2] Uuriintuya Batsaikhan and Louis Larue. 2023. *How to Stop The Wild Green Gold Rush: Credible ESG Ratings*. Positive Money Europe, WWF Europe and Reclaim Finance.
[3] Thierry Philipponnat. 2023. *Regulating ESG ratings to strengthen sustainable investors*. Finance Watch.
[4] European Commission. 2022. "Targeted consultation on the functioning of the ESG ratings market in the European Union and on the consideration of ESG factors in credit ratings". European Commission.
[5] Timothy Doyle. 2018. *Ratings That Don't Rate: The Subjective World of ESG Ratings Agencies.* American Council for Capital Formation.
Miriam Breitenstein, *et al*. 2022. "Disclosure of climate change risk in credit ratings". ECB Occasional Paper Series No 303. European Central Bank.
Michael Kimbrough, *et al.* 2022. "Does Voluntary ESG Reporting Resolve Disagreement Among ESG Rating Agencies?" European Accounting Review.
[6] European Commission. 2022. "Targeted consultation on the functioning of the ESG ratings market in the European Union and on the consideration of ESG factors in credit ratings". European Commission.

stands for.[7] As such, a consensus has emerged among credit raters, asset managers and asset owners that insufficient standardization is damaging the market and the credibility of credit rating agencies.[8] This **lack of consistency and comparability is reinforced by a lack of transparency on methods used,**[9] **with full methodologies not being available, no explanations being provided on rating changes**[10] **and no information on data verification processes being supplied**[11]. Similarly, it is impossible to determine how the E, S and G factors contribute to the rating and how they interact with each other.[12]

The absence of standardization has notably led to there being no correlation between ESG ratings from various providers. ESG rating providers are producing widely different ESG ratings for the same companies, and statistical studies have shown that the rate of correlation between these various ESG ratings is very low.[13] This is a serious worry, for it signals deep disagreement among ESG providers as well as profound differences in methodologies. As Positive Money Europe underlined,[14] it has several negative consequences for investors and companies:

- **Investors relying on a single ESG rating will fail to track possible disagreement among ESG providers**, making it possible that investment decisions will be based on incorrect information. More fundamentally, **investors may simply choose the more lenient ESG rating**, not the one that gives a true picture. Recent studies suggest manipulation of ESG ratings is already common in the fund industry.[15]
- **"Well-intended" investors that try to confront several ESG ratings will have difficulties identifying which one provides relevant information**, especially when trying to assess the impact of the company in question.

---

[7] 2° Investing Initiative. 2022. *Do we speak the same lLanguage? A Market Survey on the Future of ESG Ratings*. European Climate Foundation.
Monica Billio, *et al.* 2021. "Inside the ESG ratings: (Dis)agreement and performance". Corporate Social Responsibility and Environmental Management 28 (5): 1426–1445.
[8] European Commission. 2022. "Targeted consultation on the functioning of the ESG ratings market in the European Union and on the consideration of ESG factors in credit ratings". European Commission.
[9] European Commission. 2020. *Study on sustainability-related ratings, data and research*. European Commission.
[10] Florian Berg *et al.* 2021. "Is History Repeating Itself? The (Un)Predictable Past of ESG Ratings." Finance Working Paper 708/2020. European Corporate Governance Institute.
[11] European Commission. 2022. Targeted consultation on the functioning of the ESG ratings market in the European Union and on the consideration of ESG factors in credit ratings. European Commission.
[12] European Commission. 2020. *Study on sustainability-related ratings, data and research*. European Commission.
[13] Florian Berg *et al.* 2022. Aggregate Confusion: The Divergence of ESG Ratings. Review of Finance 26 (6): 1315–1344.
Michael Kimbrough, *et al.* 2022. Does Voluntary ESG Reporting Resolve Disagreement Among ESG Rating Agencies? European Accounting Review.
[14] Uuriintuya Batsaikhan and Louis Larue. 2023. *How to Stop The Wild Green Gold Rush: Credible ESG Ratings*. Positive Money Europe, WWF Europe and Reclaim Finance.
[15] Gianpaolo Parise. *et al*. 2023. *Green Window Dressing*. SSRN.

- **Differences in ESG rating methodologies send contradictory signals to companies**, potentially preventing them from improving their ESG performance. **Companies may also avoid improving important sustainability elements if they are not considered by prominent ESG ratings and/or if they can advertise their sustainability credentials based on another rating.** Ideally, all ratings should flag similar information, as it is the analysis of the assessed company that matters, not the methodology of the rating provider.

b. *... that paves the way for greenwashing*

As the vast majority of ESG ratings deal with how environmental risks affect the company in question, high ESG ratings are by no means an indication of better environmental practices. **Studies clearly showed there was not necessarily any correlation between ESG ratings and the actual environmental impact of companies.[16]**
This gap is partially caused by the aggregation of the E, S and G factors.[17] This enables companies with the worst environmental practices to pick up better ratings via the S and G factors, but also directly stems from a failure to correctly assess the E factor.[18] The OECD noted that "high environmental pillar scores do not always mean that a firm has reduced its greenhouse gas emissions and emissions intensity over time or increased use of and investment in renewable energy", but that "it is the firm's disclosure of climate risks and opportunities that is prioritised."[19] Concretely, companies with a massive negative impact on the environment–like fossil fuel companies–can have relatively high ESG ratings.

However, ESG ratings are often used as a proxy for environmental and/or climate performance, and sometimes marketed as such. **Good ESG rating scores and the widely used responsible investment approaches relying on them – like the "best in class" – can easily present a misleading message that a company or investment is sustainable, activating the significant risk of greenwashing which would spread further to ESG ratings users.[20]** For example, oil and gas companies that are developing new production projects at odds with international climate goals can have relatively high ESG ratings,[21] sometimes above the ratings of companies in renewable energy.[22] **Without adequate standardization of**

---

[16] OECD. 2022. "ESG ratings and climate transition: An assessment of the alignment of E pillar scores and metrics". OECD Business and Finance Policy Papers, No. 06
David F. Larcker, *et al.* 2022. *ESG Ratings: A Compass without Direction*. Stanford Closer Look Series.
[17] Thierry Philipponnat. 2023. *Regulating ESG ratings to strengthen sustainable iInvestors*. Finance Watch.
[18] OECD. 2022. "ESG ratings and climate transition: An assessment of the alignment of E pillar scores and metrics". OECD Business and Finance Policy Papers, No. 06.
R. Boffo. *et al.* 2020. *ESG Investing: Environmental Pillar Scoring and Reporting*. OECD Paris.
[19] OECD. 2023. "Net Zero+: Climate and Economic Resilience in a Changing World". OECD Website.
[20] ESMA. 2023. *Progress Report on Greenwashing*. European Supervisory Authorities.
[21] Luisa Palacios and Catarina Vidotto Caricati. 2023. *Assessing ESG Risks in National Oil Companies: Transcending ESG Ratings with a Better Understanding of Governance*. Columbia Center on Global Energy Policy.
[22] Fabio Mercier. 2021. "Can you guess the ESG score?" Altio.

methodology – including minimum E factor standards – and complete transparency, the scale of greenwashing is impossible to determine.[23] Since ESG ratings are expected to provide critical information for investment strategies, risk management and disclosure obligations by investors and financial institutions, this situation must be immediately remedied.

A proposal that falls far from the target

In this context, **the proposed European Commission ESG rating regulation covers several measures that would contribute to greater quality and reliability of ESG ratings, including:**

- **A new regime for the authorization and supervision of ESG rating providers.**

Today, no specific regulation is in place for ESG rating providers. While ESG rating providers have a large influence on the financial sector and its evolution, they do not fall under the supervision of European and national regulators. With the European Commission proposal, ESG ratings would need to comply with new rules – notably to prevent conflict of interest – and be directly authorized and supervised by the European Securities and Markets Authority (ESMA).

- **Increased disclosure of methodologies and data.**

The proposed regulation requires ESG rating providers to reveal the data and information used to calculate scores. It importantly requires them to disclose information on:

  - The scope of the rating and separate elements on the characteristics of the E, S and G factors[24] and their respective weight in the rating;
  - Whether and how the methodologies are based on scientific evidence;
  - Whether the rating is assessing risks, impacts or other dimensions;
  - Whether the rating is expressed in absolute or relative values.

However, the proposal leaves out the most impactful measures necessary to make ESG ratings fit for purpose and avoid the risks of greenwashing. Indeed, **the proposal does not harmonize the content of ratings and remains insufficiently clear or prescriptive on several key disclosures needed to understand their characteristics correctly**. To address these worrying shortcomings, Reclaim Finance recommends amending the ESG proposal to adopt the complementary measures summarized in the table below.

Contact:
Paul Schreiber, Senior Policy Advisor, paul@reclaimfinance.org
Olivier Guérin, EU Advocacy Officer, olivier@reclaimfinance.org

[23] Uuriintuya Batsaikhan and Louis Larue. 2023. *How to Stop The Wild Green Gold Rush: Credible ESG Ratings*. Positive Money Europe, WWF Europe and Reclaim Finance.

[24] European Commission. 2023. *Annexes to 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*. European Commission.

Objective	Measure	Inclusion (Yes/Partial/No)	Explanation
Enable ESG rating users to understand what the E, S and G factors mean by disaggregating ratings and requiring key disclosures (Article 14 and Annex III)	Separately report on the main components of E, S and G factors.	**Yes**	As Finance Watch and many others have highlighted,[25] the aggregation of E, S and G factors into single ratings does not have a strong theoretical foundation and creates confusion. **The European Commission proposal addresses this problem by requiring specific reporting on each factor and the respective weight of each factor in the synthesized ESG rating.** These transparency requirements are important to be able to understand the meaning of ESG ratings and better compare them. However, as underlined in this paper, they are not sufficient to do so.
	For E, S and G factors respectively, provide minimum information on: a. Whether the rating addresses impact, risk (“single materiality”), or both (“double materiality”). b. The international standards and scientific evidence on which the rating is based, and how these relate to its objectives. c. Whether the rating methodology compares the company to other companies in the same sector	**Partial**	The **European** Commission proposal requires ESG rating providers to disclose: a. “information on the ratings’ objective, clearly marking whether the rating is assessing risks, impacts or some other dimensions”; b. “information on whether and how the methodologies are based on scientific evidence”; c. “information on whether the rating is expressed in absolute or relative values”. However, **the above requirement regarding scientific evidence is imprecise**:

[25] Thierry Philipponnat. 2023. *Regulating ESG ratings to strengthen sustainable iInvestors*. Finance Watch.

Objective	Measure	Inclusion (Yes/Partial/No)	Explanation
	(“relative” evaluation) or provides an absolute evaluation of its performance. d. The exposure to any activities or companies that represent a significant risk to the objectives mentioned in b) and, more broadly, to international goals such as limiting global warming to 1.5°C.		• It does not require the disclosure of the precise scientific standards. • It does not link this “scientific evidence” to the objectives of the rating. Furthermore, **the three above-mentioned disclosures are not explicitly required at the level of each factor**. This is especially important for absolute or relative values, as such a distinction is essential to properly understand the meaning of ESG ratings on E factors. Indeed, companies in highly polluting sectors could benefit from a relative E factor, while an absolute E factor would logically not be in their favor. **The proposal notably fails to mandate information on the exposure to activities that would represent a significant risk to the objectives of the rating, and to international social and climate goals.** Requiring this disclosure would be fully coherent with the logic and content of other EU regulations: the SFDR (“principle adverse impact” or PAI), the EU taxonomy (“DNSH principle”), CSRD/ESRS (identification of “locked-in emissions” and fossil fuel disclosures) and CSDDD.
Establish baseline standards for E, S and G in ESG ratings (additional article and Article 14):	**Ensure that “E” means the rating considers alignment with the 1.5°C target set by the Paris Agreement, notably:** a. The need to immediately stop fossil fuel production development. b. The need to immediately stop the development of other activities	**No**	**The proposal contains no minimum requirement for the E factor**. Since ESG ratings are used to shape climate and environmental policies from financial institutions and companies, such a gap is especially unacceptable and a significant potential source of greenwashing. Therefore, **Reclaim Finance urges EU policymakers to establish clear minimum requirements to ensure ESG ratings consider alignment with the 1.5°C target**, including:

Objective	Measure	Inclusion (Yes/Partial/No)	Explanation
	incompatible with the 1.5°C objective (such as coal-based steel production and fossil fuel-based power generation). c. The sufficient reduction of greenhouse gas (GHG) emissions on all scopes. d. The adoption of a credible climate transition to align all activities with the 1.5°C target.		a. **The need to immediately end the development of fossil fuel production.** Consuming existing fossil fuel reserves will deplete the remaining carbon budget if we are to limit global warming to 1.5°C. In fact, nearly 40% of the "developed reserves" of coal, oil and gas cannot be used to achieve this objective. Furthermore, fossil fuels are also significantly hindering progress on Sustainable Development Goals (SDGs).[26] In this context, an immediate end to the development of fossil fuels is imperative. b. **The need to immediately end the development of harmful activities.** Beyond fossil fuel production, development must cease on other activities incompatible with the 1.5°C target. This is notably the case for fossil fuel-based power generation[27] – with a global power sector that must reach carbon neutrality by 2040 at the latest – and the steel sector.[28] But it is also the case for activities that are linked to deforestation.[29] c. **The sufficient reduction of GHG emissions on all scopes.** Limiting global warming to 1.5°C requires almost halving global GHG emissions by 2030, and reaching carbon neutrality by 2050.[30] The EU has adopted ambitious objectives to do this, and its Paris-aligned benchmark (PAB) requires companies to reduce their emissions on an annual basis.[31]

[26] Freddie Daley and Charlie Lawrie. 2022. *Fuelling Failure*. Fossil Fuel Non-Proliferation Treaty Initiative.
[27] Claire Maraval. 2023. *Gaslighting: Financing fossil gas power is leading Europe's energy transition astray*. Reclaim Finance.
[28] Cynthia Rocamora. 2023. *Decarbonizing the steel sector: The role of financial institutions*. Reclaim Finance.
[29] Forest 500. *2023: A watershed year for action on deforestation: Annual Report 2023*. Global Canopy.
[30] UNEP. 2022. *Emission Gap Report 2022*. United Nations Environment Programme.
[31] Nadia Humphreys. 2021. "Behind the buzz of Paris Aligned Benchmarks". Bloomberg Professional Services.

Objective	Measure	Inclusion (Yes/Partial/No)	Explanation
			d. **The adoption of 1.5°C-aligned transition plans that cover all activities.** Credible 1.5°C transition plans are necessary to assess whether a company is taking steps to transform and face the global challenge of climate change. Primary expectations for these plans can be set using the UN HLEG report on the topic.[32] EU regulations are increasingly considering transition plans, and regulators are underlining their relevance as forward-looking instruments. Companies will already be required to disclose information on their plans – or the lack of them – through CSRD. Such plans will also serve to fulfill the duties set out in the CSDDD and – for financial institutions – in prudential regulation.
	Ensure that "S" means the rating is at least aligned with the core ILO labour standards and UN Guiding Principles on Business and Human Rights.	**No**	**The proposal contains no minimum requirement for the S factor.** This lack of standardization is worrying as it means ESG ratings are not even bound to consider the main international social standards. Furthermore, it is contrary to the alleged will of EU institutions to increasingly integrate social aspects in finance and economic activities, notably through the development of a social taxonomy. **Minimum criteria should be set to ensure the S factor in ESG ratings always considers ILO labour standards and the UN Guiding Principles on Business and Human Rights.** The criteria could also be extended to build

[32] United Nations High-Level Expert Group. 2023. *Integrity matters: Net zero commitments by businesses, financial institutions, cities and regions*. United Nations.

Objective	Measure	Inclusion (Yes/Partial/No)	Explanation
			on the work done to establish "minimum social safeguards" (MSS) in the EU taxonomy[33] and on the due diligence obligations of the CSDDD.
	Ensure that "G" means the rating is at least aligned with the core G20/OECD Principles of Corporate Governance and the UN Convention Against Corruption	**No**	**The proposal contains no minimum requirement for the G factor.** As the EU is an important party of several conventions and treaties on governance, it is necessary that private actors follow this path as well. Minimum criteria on governance should thus be set to ensure that the G factor is ESG ratings always considers G20/OECD Principles of Corporate Governance and the UN Convention Against Corruption
	Ensure that the baseline standards for E, S and G factors represent significant weight within each factor.	**No**	The proposed baseline standards would be a great improvement to ESG ratings comparability and quality. However, this progress could be hindered if ESG rating providers only attribute a small weight to the baseline standard in each factor. In such cases, companies can still reach good grades on each factor despite failing to respect baseline standards. It is therefore necessary to require providers to attribute a significant baseline standard in each factor.
Establishing a minimum weighting	**Ensure that the S and G factors always constitute at least 25% of the aggregated ESG rating.**	**No**	**The European Commission proposal only imposes disclosing the weight of each factor in the aggregated rating.**

[33] Platform on Sustainable Finance. 2022. *Final Report on Minimum Safeguards*. Platform on Sustainable Finance.

Objective	Measure	Inclusion (Yes/Partial/No)	Explanation
threshold for each E, S and G component	**Ensure that the E factor makes up at least 33% of the aggregated ESG rating.**	**No**	However, **not setting minimum weights for factors could lead to unbalanced ratings that would disproportionately favour a specific factor over others**. For example, a rating that gives 70% weight to the G factor and 15% to the E and S factors would allow a company to achieve a general rating of 6.6 with just 9/10 on the G factor and regardless of 1/10 on the E and S factors. **A threshold of at least 25% for each E, S and G factor limits the potential imbalance in aggregated ESG ratings.** In the above-mentioned example, the aggregated rating would fall to 5. ESG ratings are used to reorient investment and shape products. As such, the content of ESG ratings and the weight of the E factor can play a significant role in enabling or hindering EU objectives. Contributing to climate action and environmental protection is an explicit objective of the EU sustainable finance strategy. Following it, key environmental and climate indicators are becoming mandatory through the CSRD and SFDR, leading to increased data being available to providers. These developments make the E factor of ESG ratings especially relevant to the EU. However, **the lack of minimum weighting means that the E factor could be only marginal in overall aggregated ratings**. Beyond ensuring the quality of the assessment of "E" in ESG, it is necessary to ensure it **counts for at least a third of the total rating**.

Amendments recommendations from Reclaim Finance

Article	Text proposed by the Commission	Amended text	Description
Recital 14	*This Regulation complements the existing EU sustainable finance framework. Ultimately, ESG ratings should facilitate information flows in order to facilitate investment decisions.*	*This Regulation complements the existing EU sustainable finance framework. Ultimately, ESG ratings should facilitate information flows* ***and fact-based transparency*** *in order to facilitate investment decisions* ***and avoid misleading investors or contributing to greenwashing.***	This amendment highlights another aim of the regulation: it must ensure that ESG ratings avoid misleading investors and contribute to greenwashing;.
Recital 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.*	*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* ***and minimum*** *requirements and ensure market integrity.*	The amendment introduces the notion of "minimum" requirements. This notion entails that the ESG regulation goes beyond its current redaction to standardized the content of ESG ratings. This amendment opens the door to other amendments that add minimum requirements on E, S and G factors.
(new) Recital 20a	*X*	***(20a) - To ensure the credibility and quality of ESG ratings, standardised minimum requirements should be added for each E, S and G factor. Such minimum requirements must be aligned with the***	This amendment highlights the need to establish minimum requirements for E, S and G factors.

Article	Text proposed by the Commission	Amended text	Description
		EU's own commitments and objectives, notably in regard to the need to address climate change.	These minimum requirements should build on other EU regulations and be aligned with EU commitments and objectives, notably those related to climate change.
Article 1 – Alinea 1	*"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."*	*"It aims to contribute to the smooth functioning of the internal market* ***and to contribute to achieving the objectives of the EU Green Deal and climate target plan****, 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."*	This amendment adds the contribution to the EU Green Deal and climate target plan among the objectives of the regulation.
Article 14 – (new alinea)	X	After "1.", add: *"**2. ESG rating providers shall ensure that their ratings contribute to reaching international climate, environmental and social goals.**"*	This amendment ensures that ESG ratings are tied to international human, social and environmental objectives.

Article	Text proposed by the Commission	Amended text	Description
Article 14 - 10a (new alinea)	X	***"10a. in the case of an aggregated ESG rating, the ESG rating providers shall use a rating methodology that sets a weighting threshold of at least 33% for the environment factor, and 25% for the social and governance factors.***	The proposed amendment aims at defining a minimum threshold for each ESG factor.
(new) Article 14a - Additional article – Mandatory transparency requirements for ESG factors	X	*Article 14a* ***Mandatory transparency requirements for ESG factors*** ***Information relevant to assess the quality and usefulness of the ESG rating must be disclosed separately on each E, S and G factor, including:***	
	X	***a. Whether the rating addresses impact, risk or both dimensions;***	
	X	***b. The objectives of the rating, and the international standard and scientific evidence on which they are based;***	
	X	***c. Whether the rating methodology compares the company to other companies in the same sector ("relative"***	

Article	Text proposed by the Commission	Amended text	Description
		evaluation) or provides an absolute evaluation of its performance.	
	X	***d. The exposure to any activities or companies that represent a significant risk to the objectives of the rating or to international goals such as the ones of the Paris Agreement***	
	X	***2. The combined weight of the above-mentioned criteria must be significant in the total criteria of the Environment factor.***	The proposed amendment aims at ensuring that a reasonable part of the Environment factor actually evaluates key environmental and climate achievements or commitments made by the rated entities.
(new) Article 14b – Additional article – Minimum criteria for the environmental factor	X	***Article 14b*** ***Minimum requirement for the environmental factor*** ***1. To ensure the coherence of ESG ratings with international and European climate and environmental objectives and to reduce the risk of greenwashing, ESG rating providers must***	The proposed amendment aims at defining prerequisite requirements for the environment factor.

Article	Text proposed by the Commission	Amended text	Description
		consider within the Environment factor the following criteria:	
	X	***a. Whether the rated entity has adopted a credible climate transition plan aligned with the 1.5°C objective.***	The first prerequisite for the environment factor constitutes of the adoption of a 1.5°C aligned transition plan
	X	***b. Whether the rated entity engages in activities that are incompatible with the 1.5°C objective, including any activities related to the development of new or increased fossil fuel production, power production from fossil fuels, or steel production relying on coal..***	The second prerequisite for the environment factor consists of the disclosure of exposure to fossil fuels or activities falling within the scope of the "do no significant harm" principle.
	X	***c. Whether the rated entity is reducing its GHG emissions at a sufficient pace on all scopes to be aligned with the 1.5°C objective.***	The third prerequisite for the environment factor constitutes on the assessment of the pace of greenhouse gas emission reduction
	X	***2. The criteria mentioned in 1 must make up for a significant part of the E factor.***	The proposed amendment aims at ensuring that a significant part of the Environment factor actually evaluates key environmental and climate achievements or commitments made by the rated entities.

Article	Text proposed by the Commission	Amended text	Description
(new) Article 14c – Additional article – Minimum criteria for the social factor	X	***Article 14c*** ***Minimum requirement for the social factor*** ***To ensure the coherence of ESG ratings with international and European social and human rights rules and objectives, ESG rating providers must consider within the social factor the following criteria:***	The proposed amendment aims at defining prerequisite requirements for the social factor.
	X	***a. Whether the rated entity is aligned with the core ILO labour standards;*** ***b. Whether the rated entity is aligned with the UN Guide Principles on Business and Human Rights***	The prerequisites for the social factor constitutes of the alignment by rated entities to guidelines established by the United Nations as well as the International Labor Organization
(new) Article 14d – Additional article – Minimum criteria for the governance factor	X	***Article 14d.*** ***Minimum requirement for the governance factor*** ***1. To strengthen the sincerity of the social factor, the ESG rating providers must include within the governance factor the following criteria:*** ***a. Whether the rated entity is aligned with the G20/OECD Principles of Corporate Governance.***	The prerequisites for the social factor constitute the alignment by rated entities to guidelines established by the UN Convention Against Corruption as well as the G20/OECD Principles of Corporate Governance.

Article	Text proposed by the Commission	Amended text	Description
Annex III		***b. Whether the rated entity is aligned with the UN Convention Against Corruption.***	
	(c) information on whether and how the methodologies are based on scientific evidence;	(c) **For aggregated rating and each E, S and G factors,** information on whether and how the methodologies are based on scientific evidence **and the international standards it relies on**;	This amendment ensures that information on whether and how methodologies are based on scientific evidence is disclosed at the level of the aggregate rating and of each factor. It also requires that this information contain elements on the underlying international standards.
	(d) information on the ratings' objective, clearly marking whether the rating is assessing risks, impacts or some other dimensions;	(d) **For aggregated rating and each E, S and G factors,** information on the objectives, clearly marking whether the rating **or factor** is assessing risks, impacts or some other dimensions.	This amendment ensures that information on the objectives of the rating is disclosed at the level of the aggregate rating and of each factor.
	(h) information on whether the rating is expressed in absolute or relative values,	(h) **For aggregated rating and each E, S and G factors,** information on whether the rating is expressed in absolute or relative values,	This amendment ensures that information on whether the rating is expressed in absolute or relative values is disclosed at the level of the aggregate rating and of each factor.

Article	Text proposed by the Commission	Amended text	Description
	X	**[Additional] (l) For aggregated rating and the E factor, information on how the rating considers the need to phase down and out harmful activities that are incompatible with the objectives of the Paris Agreement and EU Green Deal, including any activities tied to the development of fossil fuel production.**	This amendment adds a requirement to disclose information on how the rating addresses the need to phase down and out harmful activities.

Clarification amendments

Article	Text proposed by the EC	Amended text	Description
Article 4	*Requirements to provide ESG ratings in the Union* *Any legal person who wishes to provide ESG ratings in the Union shall be subject to either of the following*	*Requirements to provide ESG ratings in the Union* *Any legal person who wishes to provide ESG ratings **to an entity based or operating** in the Union shall be subject to either of the following*	This amendment aims at clarifying to which entities this regulation applies.

Article	Text proposed by the EC	Amended text	Description
Article 13 1a (new alinea)	X	***(aa) the information referred to in point 1 of Annex III;***	This amendment clarifies that the information requested in Annex III are publicly disclosed via the ESAP.
Article 16	X	After "5. c)" add: **"d) Have received adequate training to understand ESG matters, notably those related to climate change."**	This amendment aims at ensuring that ESG providers' employees receive proper training on ESG matters.