

# ESG SHORTS

## REGULATION OF ESG RATING AGENCIES

ESG ratings play an important role in investment decisions. On 15 July 2023, the European Commission published draft legislation to improve ESG ratings. This underlines the European Commission's commitment to transparent and more valid ESG ratings. The deadline for feedback on the draft ended on 1 September 2023.

### 1. SUMMARY OF THE COMMENTS

The perspectives of two parties affected by ESG ratings are presented below.

<b>Companies in the real economy</b> , which serve as a data source for ESG ratings, provide the following feedback, among others:	<b>The fund associations</b> that use the ratings, on the other hand, have different views on the following points, among others:
<ul style="list-style-type: none"><li>• They criticise the fact that the various methods used by the rating agencies lead to inconsistent results and therefore no reliable sustainability profile can be created. The draft currently stipulates that these different methods should continue to be permitted.</li><li>• The draft law does not contain any provisions on the origin of the data. In order to improve the transparency and quality of the data, companies are in favour of using only publicly accessible information, for example from CSRD/ESRS publications.</li></ul>	<ul style="list-style-type: none"><li>• To ensure the independence of an ESG rating agency, the draft prohibits certain ancillary activities such as consultancy and investments. The associations are concerned that these prohibitions are too strict and could restrict the market too much.</li><li>• The draft does not refer to ESG rating methods that are only used internally. As the internal methods are often used by asset managers to calculate the proportion of the financial product's investments that are detrimental and are subject to reporting requirements, these should also be taken into account in the regulation.</li></ul>

### 2. NEXT STEPS

Before the draft bill becomes law, any feedback will be submitted to the European Parliament and Council. It is not possible to predict which specific amendments will be included in the regulation. According to the EU action plan, adjustments to ESG ratings are to be made in 2023.

However, due to the length of the legislative process, including the implementation phase, this is unlikely to be realised.

If you are interested in obtaining ESG data from various providers independently via WM Datenservice, please do not hesitate to contact us at any time.

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