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'I' ITEM NOTE

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| From: | General Secretariat of the Council |
| To: | Permanent Representatives Committee (Part 2) |
| Subject: | Proposal for a Regulation of the European Regulation and the Council on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities, and amending Regulation (EU) 2019/2088 - Confirmation of the final compromise text with a view to agreement |

I. INTRODUCTION

1. In March 2018, the Commission published its Action Plan 'Financing Sustainable Growth', setting up its strategy on sustainable finance. The objectives of that Action Plan are to mainstream sustainability factors into risk management and reorient capital flows towards sustainable investment to achieve sustainable and inclusive growth. As part of the Action Plan, the Commission commissioned a study entitled "Study on Sustainability Related Ratings, Data and Research" 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. At international level, the International Organization of Securities

Commissions ('IOSCO') has issued a report in November 2021 containing a set of recommendations on ESG ratings providers.

2. In the light of this, on 14 June 2023, the Commission presented a proposal for a Regulation of the European Parliament and of the Council on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities¹. This proposal aims to lay down authorisation (and supervision) by ESMA of third-party providers of ESG ratings; a separation of business for the prevention and management of conflicts of interest; proportionate and principle-based organisational requirements; minimum transparency requirements to the public on ratings methodologies and objectives and more granular information to subscribers and rated companies; transparency of fees and requirements for fees to be fair, reasonable and non-discriminatory; possibility for third-country providers to operate on EU market subject to equivalence, endorsement or recognition.
3. The European Economic and Social Committee delivered its opinion on 25 October 2023². The European Central Bank decided to deliver at its own initiative its opinion on 6 October 2023³.
4. At its meeting on 20 December 2023, the Permanent Representatives Committee confirmed the mandate to start negotiations with the European Parliament on the amended text of the proposal as laid down in doc. 16711/23.
5. The European Parliament agreed the mandate to enter into interinstitutional negotiations; the mandate was announced during the plenary session held between 11 and 14 December 2023.
6. On that basis, the Belgian Presidency conducted negotiations with the European Parliament with a view to a first-reading agreement.

¹ 10638/23 + ADD 1.

² Doc. 15614/23.

³ Doc. 13914/23.

7. On 5 February 2024, a provisional agreement was reached, followed by technical work, resulting in the final compromise text as set out in doc. 6255/24.

II. CONCLUSION

8. Against this background, the Permanent Representatives Committee is invited to:
- approve the text of the draft Regulation as set out in doc. 6255/24 with a view to reaching an agreement at first reading with the European Parliament; and
 - give to the Chairman of the Permanent Representatives Committee the mandate to inform the Chair of the European Parliament's Economic and Monetary Affairs Committee that, should the European Parliament adopt the text of the proposal in the exact form as set out in doc. 6255/24, the Council would adopt the proposed Regulation thus amended, subject to legal-linguistic revision by both institutions.
9. Unless objected by COREPER, this note and doc. 6255/24 will be made public by the General Secretariat of the Council after approval.