

Grade A rating? Reviewing the EU ESG Ratings Regulation

Top 10 things about the new EU rules

May 2026

The EU's ESG Ratings Regulation applies from 2 July 2026.

In this briefing note, we summarise the Top 10 things that providers of ESG ratings need to know about these important new rules. This is relevant both to firms which provide ESG ratings as a standalone business, and also to firms which publish ESG ratings as part of other products or services, including investment firms and asset managers.

This note was originally published in December 2024, and then updated in May 2026, ahead of the July application date.

The ESG Ratings Regulation is another significant development in the EU's already complex landscape for ESG regulation.

The primary focus of the ESG Ratings Regulation is on **rating providers which issue and publish/distribute ESG ratings** to their clients. The Regulation creates a new ESMA authorisation regime for EU-based rating providers, along with detailed new organisational, conduct of business and transparency rules.

However, beyond the ratings providers, firms which publish ESG ratings in the context of other business models (for example, asset managers) will need to ensure that they have assessed whether the Regulation applies to them, or whether one or more of the available **exemptions** will take them out of scope.

Although exempt from the authorisation requirements, where ESG ratings are included in **marketing communications** by **regulated financial undertakings** in the EU, they are subject to new **mandatory transparency** requirements.

Firms will need to prioritise **scoping** whether and how the Regulation applies to them. To help with this, much of the focus of this briefing note is on explaining core concepts, including application provisions and exemptions.

1. What is the EU ESG Ratings Regulation?

In December 2024, the EU published in the Official Journal the new *Regulation on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities* ([Regulation \(EU\) 2024/3005](#)) (the **ESG Ratings Regulation**).

The policy purpose of the ESG Ratings Regulation is to ensure that ESG ratings are independent, comparable, impartial, systematic and of adequate quality and that rating activities are conducted in accordance with the principles of integrity, transparency, responsibility, and good governance.

The core focus of the ESG Ratings Regulation is to create a **new regulatory regime** for ESG rating providers **operating in the EU**. This involves both a new ESMA authorisation regime and also detailed new governance and conduct of business requirements.

It's important, though, to emphasise that there are **extensive exemptions** from the authorisation requirement. Firms which provide ESG ratings will need to scrutinise the exemptions carefully, to determine whether and, if so, how they apply.

There is also a separate set of rules which permit **non-EU rating provider firms** to provide ESG ratings in the EU, under equivalence, endorsement or recognition regimes.

2. What's the new regulatory framework for ESG ratings?

In overview, the ESG Ratings Regulation applies to **ESG ratings** issued by **ESG rating providers** which are **operating in the EU**. A firm which meets this definition will need to obtain authorisation from ESMA (or have a permitted status for a non-EU ratings provider) and comply with the governance and conduct rules, unless an exemption applies.

That summary statement involves several layers of complexity:

- *What is an ESG rating?* There is a formal definition of an ESG rating, which we summarise below in section 4 of this note.
- *Which activities are in-scope?* The Regulation applies where an ESG rating provider **issues** and **distributes/publishes** ESG ratings.
- *Which rating providers are exempt?* There is a lengthy list of exempt ratings and providers, which we summarise below in section 5 of this note. There is also an important territoriality modifier for non-EU firms, which we summarise below in section 6 of this note.
- *How do the authorisation requirements apply?* There are significantly different authorisation requirements for in-scope ratings providers, depending on whether

the provider is established either in the EU or outside the EU. These provisions are summarised below in sections 7 and 8 of this note, respectively.

- *What requirements apply to exempt ratings?* Finally, there are certain transparency obligations, which will apply to regulated financial services which otherwise fall out-of-scope of the regulation. These are summarised below in section 9 of this note.

3. When does the regulation first apply?

The ESG Ratings Regulation was published in the Official Journal on 12 December 2024. The application date is **2 July 2026** – i.e. **18 months** after entry into force. This is the date on which the provisions of the Regulation come into effect (subject to certain transitional provisions not covered in this note).

The ESG Ratings Regulation will be directly applicable in each EU member state and does not need to be implemented into national law.

4. What is an ESG rating?

The Regulation applies to **ESG ratings**, as defined. **Annex 1** to this note sets out a decision-tree, which can assist with assessing if a particular ESG-related document or data point meets the definition of an ESG rating.

Defined term	Meaning
ESG rating	<p>an opinion or a score (or a combination of both) regarding a rated item's:</p> <ul style="list-style-type: none">• profile or characteristics with regard to ESG or human rights factors, or• exposure to risks or impact on ESG or human rights factors, <p>and that is based on both an established methodology and a defined ranking system of rating categories.</p> <p>This applies irrespective of whether such ESG rating is labelled as 'ESG rating', 'ESG opinion' or 'ESG score' (defined below)</p>
ESG opinion	<p>an ESG assessment that is based on a rule-based methodology and defined ranking system of rating categories, directly involving a rating analyst in the rating process</p>
ESG score	<p>an ESG measure derived from data, using a rule-based methodology, and based only on a pre-established statistical or algorithmic system or model, without any additional substantial analytical input from a rating analyst</p>

Defined term	Meaning
rated item	<p>a legal person, a financial instrument, a financial product, a public authority or a body governed by public law which is explicitly or implicitly rated in the ESG rating.</p> <p>This is irrespective of:</p> <ul style="list-style-type: none"> • whether such rating has been requested • whether the legal person, public authority or body governed by public law has provided information for that ESG rating

Note that the definition of an ESG rating is deliberately **narrow and specific**. Amongst other things, it will require that the rating is **either an ESG opinion and/or ESG score**, and requires the rating to be based on an established methodology and a defined ranking criteria. However, the label or title applied to the rating will not be relevant.

It is also important to note that the definition of ESG rating will be triggered, whether or not the subject of the rating (the “**rated item**”) requested the rating or cooperated with the provision of information for the rating.

In practice: given that the definition of an ESG rating is narrow and specific, not all ESG-related communications or data will meet the definition. An important part of the scoping exercise for the ESG Ratings Regulation is therefore to assess whether each ESG-related communication issued by a firm meets the definition of an ESG rating.

5. **What is exempt from the definition of an in-scope ESG rating?**

The ESG Ratings Regulation contains a **lengthy list of exemptions**. These are summarised in the table below.

For the most part, the **impact** of falling within the exemption is that the ESG Ratings Regulation does **not apply at all** to the relevant ESG rating.

However, please see **exemptions (c) and (d)** in the list below, for which **additional requirements** will expressly apply, in order to benefit from the exemption. These additional requirements are summarised below, following this table.

In addition, although **exemption (m)** for SFDR disclosures is **not** expressly subject to additional disclosures, the ESG Ratings Regulation also **amends SFDR**, to impose similar additional disclosure requirements to financial market participants under SFDR, in respect of including ESG ratings in marketing communications under SFDR.

<u>Exemption</u>	<u>Scope of exemption</u>
(a) Private ratings	private ESG ratings that are not intended for public disclosure or for distribution
(b) In-house or intra-group financial services	ESG ratings issued by regulated financial undertakings in the EU that are used exclusively for internal purposes or for providing in-house or intragroup financial services or products
(c) Regulated products and services *	ESG ratings issued by regulated financial undertakings in the EU, which are incorporated in regulated products and services and disclosed to third parties <i>* Please see below for the additional requirements which may apply.</i>
(d) Non-EU providers – reverse solicitation *	ESG ratings issued by ESG rating providers established outside the EU, which are distributed in response to the own exclusive initiative of the user of the ESG rating <i>* Please see below for the additional requirements which apply.</i>
(e) Data	publication or distribution of data on ESG or human rights factors
(f) Credit ratings	credit ratings issued pursuant to the EU Credit Rating Agencies Regulation, and any ESG-related scores or assessments that are produced or published as part of the methodologies for credit ratings or as an input or output of the creditworthiness assessment
(g) Investment research etc	products or services that incorporate an element of an ESG rating, including investment research
(h) Reviews of green bonds	external reviews of European Green Bonds
(i) Reviews and opinions on debt instruments	external reviews or second-party opinions on bonds marketed as environmentally sustainable, sustainability-linked bonds, and bonds, loans and other types of debt instruments marketed as sustainable, to the extent that such external reviews and second-party opinions do not contain ESG ratings issued by the external reviewer or the second-party opinion provider
(j) EU institutions and member states	ESG ratings issued by EU institutions, bodies, offices and agencies or Member State public authorities where such ratings are not published or distributed for commercial purposes
(k) Third party distribution of ratings from authorised provider	ESG ratings issued by an authorised ESG rating provider where such ratings are published or distributed by a third party
(l) Central Banks	ESG ratings issued by members of the European System of Central Banks where such ratings are not published or distributed for commercial purposes

<u>Exemption</u>	<u>Scope of exemption</u>
(m) SFDR	mandatory disclosures pursuant to Articles 6, 8, 9, 10, 11 and 13 of SFDR
(n) Taxonomy	disclosures pursuant to Articles 5, 6 and 8 of the Taxonomy Regulation
(o) Accreditation or certification	ESG ratings developed exclusively for accreditation or certification processes, which do not target investment analysis, financial analysis, investment decision-making or financial decision-making
(p) Labelling	labelling activities provided that the labels granted to the relevant entities, financial instruments or financial products do not involve the disclosure of an ESG rating
(q) Non-profit activities	ESG ratings published or distributed by non-profit organisations for non-commercial purposes

In practice: for a firm which issues ESG ratings as an incidental part of another business (such as an investment firm or asset manager), there is an extremely wide range of exemptions available. The cumulative effect of the available exemptions is that the majority of firms which merely issue ESG ratings as an incidental part of other business activities will not need to seek authorisation from ESMA as a regulated ratings provider.

In the asset management context, the most important exemptions tend to be, in summary:

- *Exemption (a)* – private ESG ratings, not intended for public distribution
- *Exemption (b)* – the provision of ESG ratings on an in-house or intra-group basis
- *Exemption (c)* – ratings issued by EU regulated financial services firms, which are incorporated into regulated products and services
- *Exemption (k)* – distribution of ESG ratings which have been issued by a third party EU-authorized ratings provider. (Note that this applies only for ratings issued by EU authorised ratings providers, and so rating providers which are not EU authorised do not fall in-scope)
- *Exemptions (m) and (n)* – mandatory disclosures under SFDR and the Taxonomy Regulation.

It is common in practice (and permitted) for a firm to rely on multiple different exemptions.

Additional requirements for exemptions (c) and (d), and under SFDR

As noted above, *exemptions (c) and (d)* are subject to **additional requirements** under the ESG Ratings Regulation in order for the exemption to apply, and **marketing communications** under SFDR are also newly subject to certain additional requirements.

Exemption (c), Regulated products and services – additional requirements:

This exemption applies where ESG ratings are issued by **regulated financial undertakings** in the EU and disclosed to a third party.

- Exemption (c) applies only where the ESG rating is incorporated into a product or service which is already **separately regulated** under EU law. This includes (amongst others) products and services provided by credit institutions, MiFID investment firms, insurance and reinsurance firms, fund managers under UCITS and AIFMD, crypto assets under MICA, benchmarks, and IORPs.
- In addition, if the ESG rating is included in **marketing communications** relating to the regulated product or service, the regulated firm will be required to include on its website the same type of **disclosures** as are required for website disclosure by authorised EU ESG ratings providers. Note that this requirement for additional website disclosures does not apply to non-marketing communications.

***In practice:** this requires a firm relying on exemption (c) to decide whether it will publish ESG ratings in marketing communications relating to the product or service. If yes, then this will trigger the additional website disclosures. If no, then the firm may need to implement compliance procedures to restrict the documents in which it allows ESG ratings to be published.*

SFDR – additional requirements:

Exemption (m) means that the ESG Ratings Regulation does not apply to the **mandatory** pre-contractual, website and periodic disclosures required under SFDR in respect of financial products or investment/insurance advice.

However, the ESG Ratings Regulation amends **Article 13 SFDR** such that, to the extent that a financial market participant or financial adviser issues an ESG rating and discloses it to third parties as part of its “**marketing communications**”, it will be required to include on its website the same set of additional disclosures as will apply to other providers of regulated products and services.

Please see section 9 of this memo, below, which summarises the additional website disclosures in more detail.

Exemption (d), non-EU reverse enquiry – additional requirements:

In summary, this effectively provides a **reverse enquiry exemption** for **non-EU ratings providers**. The conditions are:

- The rating provider must be established outside of the EU.
- The rating provider must not be authorised or recognised under the ESG Ratings Regulation.
- The rating must be distributed only at the **own exclusive initiative** of the EU user of the rating. This means that there cannot be any prior contact, solicitation, promotion, advertisement or any other initiative by the ESG rating provider (or a third party on its behalf).
- This exemption will not be available if the provider has a “substantial” market share in the EU.
- This exemption will not be available if the provider has a website in any of the official languages of the EU, other than English.

The availability of this exemption does not entitle the provider to distribute ratings to the relevant user on a recurrent basis, nor to any other user.

6. What is the territorial scope of the new regime?

The ESG Ratings Regulation applies to ESG rating providers which are **operating in the EU**. The meaning of the term “operating in the EU” varies, depending on whether the provider is established **in the EU**, or established **outside of the EU**. Another key variable is **how** the provider provides ESG ratings in practice.

We summarise the territorial scope below.

How are the ESG ratings provided?	EU ESG rating provider	Non-EU ESG rating provider
<p>→ issue and distribute ESG ratings by subscription or other contractual relationships to:</p> <ul style="list-style-type: none"> • regulated financial undertakings in the EU • undertakings within scope of the EU Accounting Directive • undertakings within scope of the EU Transparency Directive • EU institutions or EU member state public authorities 	<p>→ in-scope</p>	<p>→ in-scope</p>

→ issue and publish ESG ratings on the firm's website or through other means	→ in-scope	→ not in-scope
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We note, therefore, that both EU and non-EU rating providers are in-scope of the Regulation, where they issue and distribute ESG ratings through subscription or other contractual means to one or more of the specified types of user. However, non-EU firms are not in scope merely by publishing ESG ratings on the firm's website or through other means (but EU firms will be).

In practice: for a non-EU firm, this territorial scoping provision is an important limitation on the application of the ESG Ratings Regulation. A non-EU firm is in-scope of the Regulation only where it issues and distributes ESG ratings by *subscription or other contractual* means, to the specified categories of EU clients (and not otherwise).

7. How do the authorisation requirements apply to an EU firm?

We turn now to consider the **authorisation requirements** for an ESG rating provider which is established in the EU. We assume for these purposes that the firm is issuing ESG ratings (as defined), that it does not benefit from any of the exemptions, and that it is territorially in-scope as a result of being established in the EU.

Application for authorisation: EU ESG rating providers will need to **apply to ESMA** for authorisation. This will involve submitting a formal application to ESMA, which includes detailed information on the firm, its ownership structure, its senior management and staff, and its operations.

Governance and conduct rules: Firms which obtain authorisation by ESMA under the ESG Ratings Regulation will be subject to a detailed range of **governance and conduct of business** obligations. The specification of those rules takes up the bulk of the ESG Ratings Regulation, and the full detail is beyond the scope of this note. In overview, the areas of regulation include:

- General governance and systems and controls requirements
- Requirements around separation of business and activities
- Requirements applicable to ratings analysts and other staff involved in the provision of ESG ratings
- Record-keeping requirements
- Complaints-handling procedures
- Outsourcing rules
- Transparency requirements – both on public websites, and more specified disclosures to users of ESG ratings and to issuers of rated items.
- Independence and conflict of interest requirements
- Fair, reasonable, transparent and non-discriminatory treatment of ESG users

Temporary regime for smaller providers: We note finally that there is a concessionary regime which applies to certain **smaller EU ESG rating providers**. This allows such firms to comply with only a sub-set of the rules, for a **temporary period of 3 years**. That regime is not covered further in this note, but please let us know if you'd like to discuss it further.

8. How does the regulation apply to a non-EU ratings provider?

In parallel with the regime for providers established in the EU, there is a separate regime under the ESG Ratings Regulation for ESG ratings providers established **outside of the EU**. We summarise those requirements in this section of the note.

We assume for these purposes that the firm is issuing ESG ratings (as defined), that it does not benefit from any of the exemptions, and that it is territorially in-scope as a result of operating in the EU (see question 6 above). *In practice, a non-EU asset manager is very unlikely to fall under these requirements, unless it has a standalone business of providing ESG ratings on a commercial basis.*

The ESG Ratings Regulation provides **three alternative routes** to market for non-EU firms.

Route	Summary
<p>Equivalence decision</p>	<p>The Regulation anticipates that the European Commission will recognise third country authorisation regimes for non-EU firms as being equivalent. This regime requires both a formal equivalence decision for the third country regime, and cooperation agreements with the regulators in the third country.</p> <p>If and when any such equivalence regime is available, the non-EU provider will need to submit a formal notification to ESMA of its intent to use the equivalence regime.</p> <p>We note that it's too early to determine whether or when the EU may decide to treat any third country regime as equivalent.</p>
<p>Endorsement</p>	<p>The Regulation allows an authorised EU ratings provider to formally "endorse" ratings that are provided by a non-EU ratings provider in its group. In effect, this regime is designed to allow international groups which have an authorised EU ratings provider to use that EU firm to give a "stamp of approval" to ESG ratings issued by its international affiliates.</p> <p>The Regulation sets out formal substance requirements and additional conduct rules for the EU firm, as well as certain conditions around the use and operation of the endorsement process.</p>

Route	Summary
Recognition	The final option for non-EU firms is to apply to ESMA to be “recognised”. This regime is available to smaller non-EU firms, and only in the period of time before the Commission adopts an equivalence decision.

We note that none of these options offers a solution which is straightforward or automatic. Each route is subject to prior approval by the EU, and subject to detailed pre-conditions. Any non-EU firm seeking to rely on any of these routes to operate in the EU will need to take specialist advice, which we are happy to provide as needed.

9. What are the public transparency requirements for ESG ratings?

As noted above, the ESG Ratings regulation includes **detailed public transparency requirements** for in-scope ESG rating providers, to be published on the firm’s website. This applies both to **authorised EU rating providers**, and also to regulated financial undertakings issuing ESG ratings, incorporating them in their products or services and disclosing them in marketing materials. It also applies to marketing communications issued by firms subject to SFDR.

In summary, the additional website disclosures are:

List of information to be included on website
Overview of the rating methodologies used (and changes), including whether analysis is backward-looking or forward-looking and the time horizon covered.
The industry classification used.
Overview of data sources, including whether data is sourced from sustainability statements required under the EU Accounting Directive or from information disclosed under SFDR, and whether sources are public or non-public and an overview of data processes, estimation of input data in case of unavailability and frequency of data updates.
The ownership structure of the ESG rating provider.
Information on whether and how the methodologies are based on scientific evidence.
Information on the ratings’ clearly defined objective and marking whether the rating is assessing risks, impacts, or both, according to the double materiality principle, or any other dimensions, and in the case of double materiality the proportion of the risk and impact materiality.

List of information to be included on website

The rating's scope – i.e., whether it covers an individual factor (E, S, or G) or whether it is an aggregated rating (aggregating E and S and G factor), or whether it covers specific issues (e.g., transition risks).

In the case of an aggregated ESG rating, weighting of the three overarching ESG factors categories (e.g., 33% Environment, 33% Social, 33% Governance), and the explanation of the weighting method, including weight per individual E, S and G factors.

Within the E, S or G factors, specification of the topics covered by the ESG rating/score, and whether they correspond to the topics from the sustainability reporting standards developed pursuant to the EU Accounting Directive.

Information on whether the rating is expressed in absolute or relative values.

Where applicable, reference to the use of Artificial Intelligence (AI) in the data collection or rating/scoring process including information about current limitations or risks of using AI.

General information on criteria used for establishing fees to clients, specifying the various elements taken into consideration, and general information on the business/payment model.

Any limitation in data sources and methodologies used for the construction of ESG ratings.

The main risks of conflicts of interest and the steps taken to mitigate them

If an ESG rating of a rated item covers the E factor, information on whether that rating take into account the targets and objectives of the Paris Agreement or any other relevant international agreements.

If an ESG rating of a rated item covers the E factor, information on whether that rating take into account the targets and objectives of the Paris Agreement or any other relevant international agreements.

Any limitation on the information available to ESG rating providers.

ESMA is mandated to develop **regulatory technical standards (RTS)**, which specify further detail on the presentation of these disclosures. However, as part of the European Commission's broader de-prioritisation of Level 2 acts in financial services legislation ([published](#) in October 2025), the RTS for the disclosures by regulated financial services firms and by firms subject to SFDR was [expressly de-prioritised](#). This means that the required RTS will **not be published** until at least October 2027.

In practice, this means that regulated financial services firms or SFDR financial markets participants which are subject to the mandatory website disclosures (under either

Exemption (c) or Article 13 SFDR) do not have available the technical standards to specify the means of compliance. Firms will therefore have to make their own risk-adjusted determination on what to disclose, taking further advice as needed.

10. What should firms do now?

As at the end of May 2026, firms have just over a month until the Regulation comes into force.

Ratings provider firms which require authorisation from ESMA will likely in practice be well underway with the application process (although if any ratings provider requires further assistance, please let us know).

Firms where ESG ratings are an incidental part of another business (such as asset managers) will typically not be subject to the authorisation requirements under the ESG Ratings Regulation. This non-application may be for some or all of the following reasons, depending on a given firm's business model and structure:

- The ESG-related communications, data or information provided by the firm do not meet the narrow and specific definition of an "ESG rating".
- In the case of a non-EU firm, the firm is not jurisdictionally in-scope (i.e. it does not provide ESG ratings to the specified types of EU client by subscription or other contractual means).
- One or more of the exemptions applies, where the firm does publish ESG ratings.

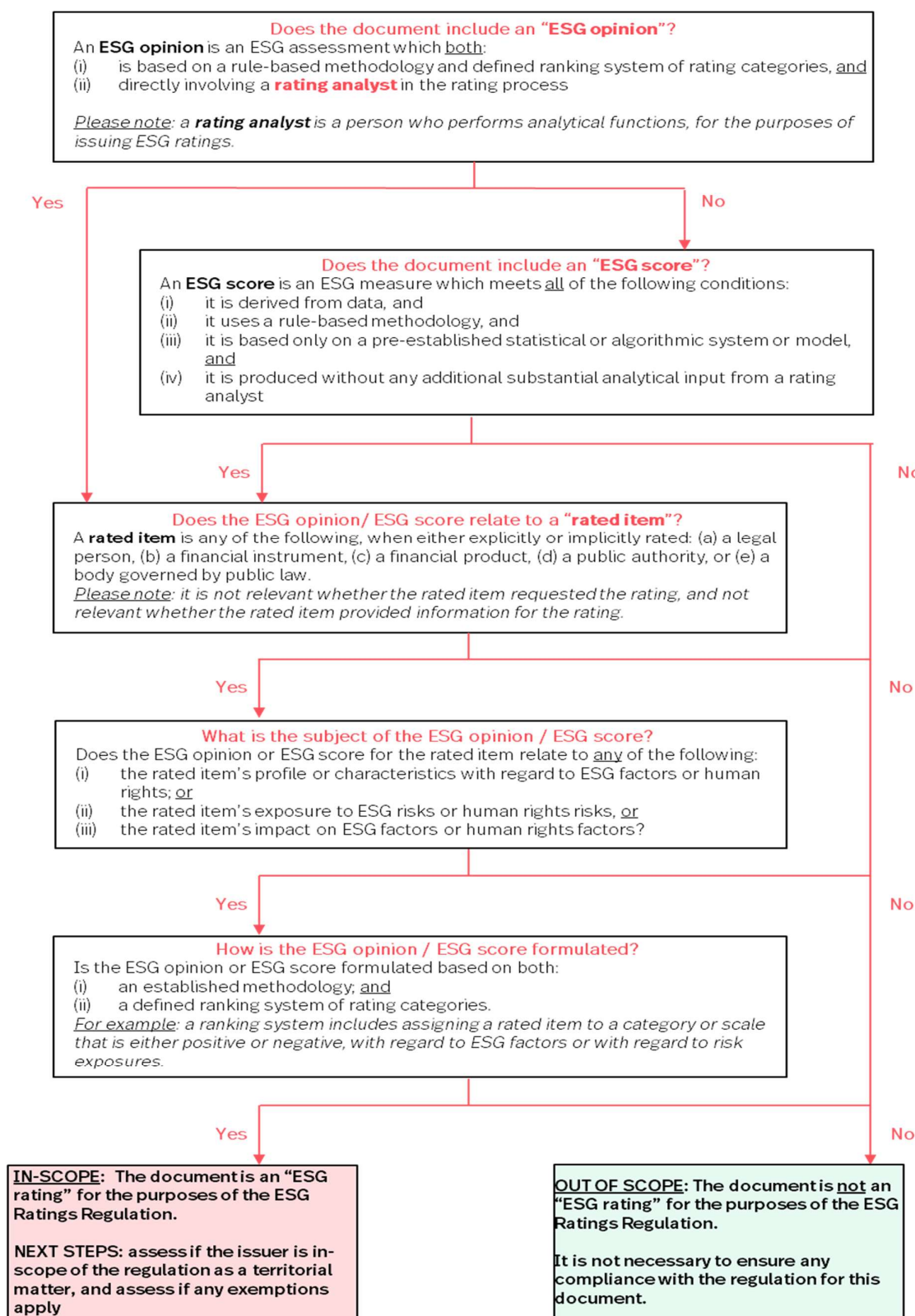
For firms which fall out-of-scope in this manner, the firm should take **formal scoping advice**, in order to confirm for good order that the Regulation does not apply.

In addition, EU financial services firms and SFDR financial market participants which issue ESG ratings and include them in **marketing materials** will need to make the **additional website disclosures**.

An exempt firm may also need to **update its compliance policies and procedures**, or marketing handbooks, or similar, to reflect the situations in which its staff are permitted or prohibited to use ESG ratings in external communications or documents.

Simmons & Simmons stands by to assist with your compliance, including scoping advice and the drafting of additional website disclosures. Please do contact any of the experts listed below, and we would be pleased to assist.

Annex 1 – Decision tree summarising the definition of “ESG rating”



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