

ESG Ratings: The introduction of a new EU framework

December 2024

On 2 July 2026, a new regulatory framework governing the provision and distribution of ESG ratings within the EU will take effect (**Framework**)¹.

Established in recognition of the increasingly important role that ESG ratings play in global capital markets, specifically in investment-decision making and risk management, the Framework is intended to make those ratings more consistent, transparent and comparable and to prevent greenwashing and other types of misinformation, including social washing.

In this briefing we provide an overview of the implications of the new Framework for both (i) those ESG rating providers providing ESG ratings and (ii) those regulated financial undertakings issuing and distributing ESG ratings when marketing their products or services.

What is an ESG rating under the new Framework?

As ESG rating is an opinion or score, or a combination of both, that is based on both an established methodology and a defined ranking system such as rating categories. The name used by the ESG rating provider to describe the rating is irrelevant

¹ The Framework has been established under [Regulation \(EU\) 2024 3005](#) and will be further expanded through related regulatory technical standards which will be published by the European Commission before the Framework takes effect.





meaning that those labelled as an “ESG opinion” or an “ESG score” for example will still fall within the scope of the Framework once they meet the definition of an “ESG rating”.

A rating can assess both the rated item’s material impact on ESG factors (i.e. its impact on the environment, society and/or governance) and the material financial risk posed by such factors for that rated item (known as the “double materiality” principle). Alternatively, a rating may only provide an assessment of either impact or financial risk.

Under the Framework, a rated item includes, for example, financial products (which include investment funds, insurance-based investment products, pension schemes or pension products) as well as other financial instruments which are subject to a rating by an in-scope ESG rating provider.

And what is not an ESG rating?

The new Framework does not apply to the following:

- ESG labels granted to a financial product or financial instrument unless the relevant label involves the disclosure of an ESG rating
- ESG ratings issued by an EU regulated financial undertaking such as a fund management company, investment firm or credit institution, which are used exclusively for internal purposes or for providing in-house or intragroup financial services or products.

What type of entity is subject to obligations under the Framework?

The Regulation imposes obligations not only on EU ESG rating providers but also certain non-EU ESG rating providers.

It also amends the SFDR² to require those financial market participants or financial advisors which issue and distribute a rating in their marketing communications to comply with certain disclosure requirements. EU regulated financial undertakings which do not fall within the scope of the SFDR but which issue an ESG rating, incorporate that rating into a product or service and disclose that rating to third parties are subject to similar transparency obligations.

Type of entity	In-scope entities	Obligations imposed
EU regulated financial undertakings subject to SFDR	This includes, amongst others, fund management companies ³ , insurance companies, financial advisors and investment firms providing portfolio management services which in each case (i) issue and (ii) disclose ratings to third parties as part of marketing communications	Any marketing communication which references an ESG rating must include a hyperlink to a website which provides information on the methodologies, models and key rating assumptions that they use in their ESG rating activities (Rating Information).

² Regulation (EU) 2019/2088

³ UCITS fund management companies and AIFMs

Type of entity	In-scope entities	Obligations imposed
EU regulated financial undertakings not subject to SFDR	This includes, amongst others, EU credit institutions, payment institutions, benchmark administrators, credit rating agencies and investment firms providing services other than portfolio management which in each case (i) issue an ESG rating, (ii) incorporate that rating in an EU regulated product or service and (iii) disclose this rating to a third party.	Subject to the same disclosure obligations imposed on EU regulated financial undertakings subject to the SFDR outlined above.
EU ESG Rating Provider ⁴	Those rating providers established in the EU which: <ul style="list-style-type: none"> i. issue and publish their ESG ratings on their website or through other means or ii. issue and distribute their ESG ratings by subscription or other contractual relationships to specific entities⁵ 	<p>Subject to authorisation and supervision by ESMA.</p> <p>Subject to organisational and conduct rules including (i) an obligation to ensure the independence of their rating activities, (ii) training of those involved in the rating process, (iii) implementing appropriate conflicts of interest arrangements, (iv) complaints handling and (v) outsourcing requirements.</p> <p>Subject to specific transparency obligations, including disclosing on their websites Rating Information and making more granular information available to (i) those users who have paid to access the ratings via a subscription and (ii) the issuers of rated items.</p> <p>Must ensure that users of their rating services provide a link to the Rating Information when they disclose any ESG rating to third parties. This means that in practice, any entity which references an ESG rating of an in-scope rating provider in their marketing communications will be required to include a link to the relevant Rating Information in those communications.</p>
Non-EU ESG Rating Provider	Those rating providers established outside of the EU which issue and distribute ESG ratings by subscription or other contractual relationships to specific EU entities ⁶ .	<p>Must operate under an equivalence⁷, endorsement⁸ or recognition regime⁹.</p> <p>Subject to the obligations imposed on EU ESG rating providers outlined above.</p>

⁴ Under the Framework, there is a temporary regime available to "small" ESG rating providers under which they are subject to a limited set of organisational and transparency obligations under the Regulation.

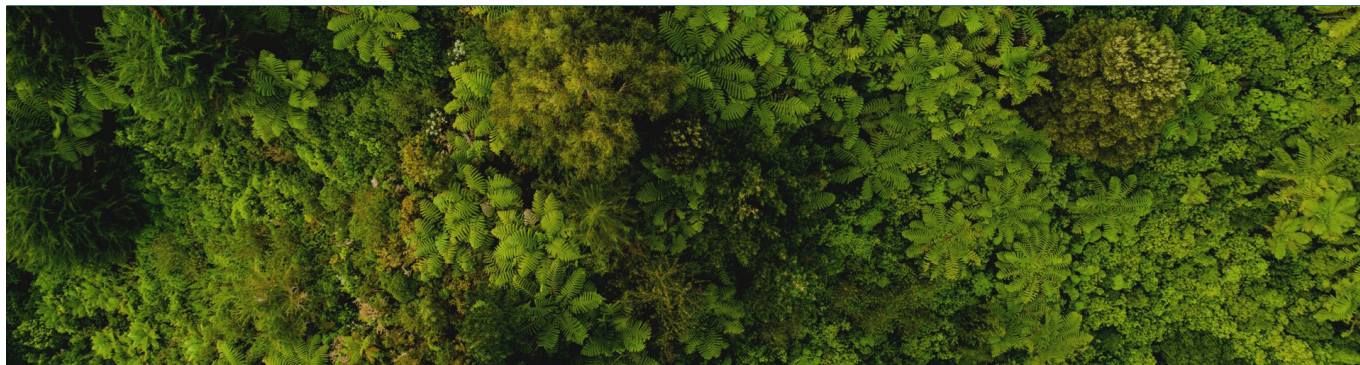
⁵ These entities include for example EU regulated financial undertakings (including fund management companies, investment firms and credit institutions), those companies falling within the scope of the EU Accounting Directive or EU Transparency Directive and certain EU/Member State public bodies.

⁶ As per entities listed under footnote 5 above.

⁷ Under the equivalence regime, the non-EU ESG rating provider must be authorised as an ESG rating provider in a third country and that third country's regulatory regime governing ESG rating providers has been deemed equivalent to the EU regime by the European Commission.

⁸ Under the endorsement regime, the non-EU ESG rating provider is endorsed by an EU-authorised ESG rating provider within its group.

⁹ Under the recognition regime, a non-EU ESG rating provider whose annual net turnover of all of its activities fall below stated thresholds can be recognised by the European Commission.



Ability to verify data used by an ESG rating provider when rating an item

Under the Framework, the issuer of a fund or other financial product must be prior notified by an ESG rating provider that the product is going to be rated by them. The issuer will also be afforded the opportunity (albeit within a limited 2 working day timeframe) to verify the data used by the ESG rating provider in arriving at its rating by highlighting any factual errors in the dataset used before the first issuance of the rating. This verification check by the issuer of the rated product is purely a fact-checking tool and cannot influence the rating methodologies or the rating outcome.

Key takeaways

Entities which provide or use ESG rating providers should now assess whether they fall within the scope of the Regulation and if so, initiate a project plan to ensure compliance with the new Framework when it goes live in July 2026.

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