

ESMA calls for legislative action on ESG ratings and assessment tools

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, has [written](#) to the European Commission (EC) sharing its views on the main challenges in the area of ESG ratings and assessment tools. ESMA highlights the need to match the growth in demand for these products with appropriate regulatory requirements to ensure their quality and reliability.

ESMA identifies the following key points for consideration:

- The market for ESG ratings and other assessment tools is currently unregulated and unsupervised. When combined with increasing regulatory demands for consideration of ESG information, there are increased risks of greenwashing, capital misallocation and products mis-selling.
- There should be a common definition of ESG ratings that covers the broad spectrum of possible ESG assessments currently on offer. This will help future-proof any regulatory framework and mitigate against possible obsolescence.
- The supervisory and regulatory regime should be adapted to the current market structure and accommodate both large multi-national providers who may be subject to existing regulatory frameworks, as well as smaller entities.
- ESG rating providers can be part of larger groups providing services such as green bond certification and credit ratings. On the other hand, smaller players would also benefit from having access to an EU-wide regime. Given this overlap and to benefit from economies of scale in supervision ESMA is ready to support possible future supervisory responsibilities in this area.

ESMA's letter builds on its [response](#) to the EC's consultation on the Renewed Sustainable Finance Strategy in July 2020, where specific issues in relation to the ESG ratings and assessment tools were raised.