

MEMO# 35373

July 11, 2023

UK Consults Voluntary Code of Conduct for ESG Ratings and Data Providers

[35373]

July 11, 2023

TO: ICI Global Members

Europe Regulatory and Policy Committee SUBJECTS: ESG

International/Global RE: UK Consults Voluntary Code of Conduct for ESG Ratings and Data Providers

On 5 July 2023, the ESG Data and Ratings Working Group (DRWG),[\[1\]](#) convened by the UK Financial Conduct Authority (FCA), launched a consultation[\[2\]](#) on a draft voluntary code of conduct for ESG ratings and data providers. The draft code of conduct largely aligns with the recommendations of the International Organization of Securities Commissions (IOSCO),[\[3\]](#) setting out six principles on good governance, securing quality, conflicts of interests, transparency, confidentiality, and engagement. The code of conduct will be finalized at the end of 2023.

ESG ratings and data providers who sign on to the voluntary code of conduct in the UK would agree to publish a statement explaining their approach to the implementation of the code, and review their implementation and public statement annually. ESG ratings providers who sign on to the code of conduct would have six months to implement the six principles, while ESG data providers would have 12 months to do so.

While the DRWG adopted IOSCO's definitions for ESG ratings and ESG data, it clarifies the code of conduct would exclude ESG ratings or data that are produced for internal or intra-group uses (e.g., ratings or analyses developed by asset managers for their own use), proxy advisor services, investment research, and regulated financial benchmarks. These providers, nevertheless, may still apply the code of conduct if they consider it to be relevant to their activities or business.

RELATED UK REGULATORY DEVELOPMENTS

Alongside the creation of the voluntary code of conduct, the HM Treasury has proposed expanding the FCA's regulatory perimeter to include ESG ratings providers.[\[4\]](#) Notably, the potential regulatory regime would only cover ESG ratings products, where assessments of ESG factors are present, and exclude raw ESG data products. The code of conduct is intended to be an interim measure in raising standards among the ESG ratings and data providers before the potential regulatory regime is in place. The FCA notes that once the

regulatory regime for ESG ratings is implemented, the voluntary code of conduct could continue to apply to ESG data products and providers that fall outside the scope of the regulation.^[5]

RELATED INTERNATIONAL DEVELOPMENTS

In its consultation on the voluntary code of conduct, the DRWG considers the interoperability of the UK code of conduct with similar policy initiatives in other jurisdictions, in particular, whether the UK code of conduct could and/or should serve as a global baseline for ESG ratings and data providers. Other similar initiatives include:

- Japan. Japan Financial Services Agency (JFSA) finalized its voluntary code of conduct for ESG Evaluation and Data Providers in December 2022.^[6] The Japan code of conduct focuses on six key areas that are similar, but not precisely aligned with, the UK: (i) the quality of ESG evaluation and data, (ii) human resource development, (iii) management and mitigation of conflicts of interest, (iv) transparency of objectives and methodologies, (v) handling of confidential information, and (vi) communication with assessed entities. The implementation periods for the UK and Japan codes of conduct are comparable.^[7]
- Singapore. The Monetary Authority of Singapore (MAS) proposed a voluntary industry code of conduct for ESG ratings and data providers in June 2023.^[8] Although the MAS similarly proposes adopting IOSCO's definitions for ESG ratings and ESG data, it has not clarified whether internal ESG ratings and data would be subject to the code of conduct in Singapore. The draft code of conduct is similar to the UK proposal, but with additional Singapore-specific requirements that draw references from relevant provisions in the MAS code of conduct for credit rating agencies. While MAS did not propose a specific timeline for implementing the Singapore code of conduct, it noted that providers should publish a self-attestation checklist regarding the progress of adopting the code of conduct. Both the UK and Singapore are considering whether providers should indicate if forward-looking information (e.g., transition plans) is factored into the underlying ratings methodologies.^[9]

Lisa Cheng
Senior Research Analyst
ICI Global

Notes

^[1] The International Capital Market Association (ICMA) and the International Regulatory Strategy Group (IRSG) were appointed as the Secretariat for the DRWG, with the mandate to develop a voluntary code of conduct for ESG ratings and data providers. Observers include the FCA, the HM Treasury, the Monetary Authority of Singapore (MAS), and the Japan Financial Service Agency (JFSA).

^[2] Draft UK Voluntary Code of Conduct for ESG Ratings and Data Product Providers For Consultation ("Draft UK Code of Conduct"), July 2023, available at <https://www.irsg.co.uk/publications/esg-ratings-and-data-products-providers-code-of-conduct-released-for-consultation>.

^[3] FR09/21 Final Report Environmental, Social and Governance (ESG) Ratings and Data

Products Providers, November 2021, available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>; ICI Memorandum [33922], dated November 24, 2021, available at <https://www.ici.org/memo33922>.

[4] See ICI Memorandum [35240], dated 13 April 2023, available at <https://www.ici.org/memo35240>. See Also Future Regulatory Regime for Environmental, Social, and Governance (ESG) Ratings Providers Consultation, March 2023, available at <https://www.gov.uk/government/consultations/future-regulatory-regime-for-environmental-social-and-governance-esg-ratings-providers>. The HM Treasury consultation closed on 30 June 2023.

[5] See FCA Press Release, We welcome the consultation on a new Code of Conduct for Environmental, Social and Governance data and ratings providers, dated 5 July 2023, available at <https://www.fca.org.uk/news/news-stories/we-welcome-consultation-new-code-conduct-environmental-social-and-governance-data-and-ratings>.

[6] See ICI Memorandum [34793], dated 10 January 2023, available at <https://www.ici.org/memo34793>. See Also The Code of Conduct for ESG Evaluation and Data Providers, December 2022, available at <https://www.fsa.jp/news/r4/singi/20221215/02.pdf>.

[7] The JFSA indicated that it would publish a list of ESG ratings providers that endorse the code within six months, and a list of endorsed ESG data providers one year later following the publication of its code of conduct for ESG ratings and data providers. See id.

[8] See Consultation Paper Proposed Code of Conduct for Environmental, Social and Governance ("ESG") Rating and Data Product Providers, 28 June 2023, available at <https://www.mas.gov.sg/-/media/mas/news-and-publications/consultation-papers/consultation-paper-on-proposed-code-of-conduct-for-esg-rating-and-data-product-providers.pdf>. ICI Global intends to respond to the MAS' consultation and recommends MAS clarify that ESG ratings and data produced by asset managers for internal or intra-group use are excluded from the scope.

[9] See Id., at 3.8 Disclosures of Forward-Looking Elements such as Transition Risks and Opportunities in ESG Ratings and Data Products, p.11-12. See Also UK Draft Code of Conduct, *supra* note 2, Annex 1, at p.12.