

## UKSIF response, FCA CP25/34: ESG ratings: proposed approach to regulation

### About UKSIF

The UK Sustainable Investment and Finance Association (UKSIF) is the UK's leading membership organisation for sustainable finance, committed to promoting a financial system and wider economy that works for the benefit of the environment and society.

UKSIF represents a diverse range of global and UK-based financial services institutions and institutional investors committed to these aims, and our more than 300 members- representing over £19trn of global assets under management (AUM)- include investment managers, pension funds, banks, wealth managers, financial advisers, ESG data and research providers, NGOs, among other groups. UKSIF and our members have played a prominent role over recent years to facilitate a more supportive policy environment in the UK for the growth of sustainable finance and to support the private finance sector's efforts in advancing the transition to a more sustainable future. For more information, please visit [uksif.org](https://uksif.org).

## **Introduction**

The UK Sustainable Investment and Finance Association (UKSIF) welcomes the opportunity to respond to the FCA's consultation on its proposed regulatory framework for ESG ratings.<sup>1</sup>

ESG ratings products and related products now play an increasingly important role in the UK's sustainable finance and investment ecosystem. This includes supporting institutional investors, other financial market participants, and companies to understand businesses, other entities, and financial products' sustainability-related risks, opportunities, and impacts. As the use of ESG ratings by institutional investors and other users has evolved within firms' investment processes, corporate engagement, voting practices, disclosures, and other use cases, there has been growing recognition of the importance of ensuring that this market operates with sufficient levels of transparency, good governance, and integrity.

Overall, we broadly support the direction of travel of the FCA's consultation proposals and we very much welcome the regulator's objective of establishing a high-quality, proportionate, and internationally coherent regulatory framework for ESG ratings providers in the UK.

In particular, we endorse the consultation's focus on ways to further support transparency, governance standards, and conflicts of interest management in this market, and the alignment in these areas with the approach taken by the International Organisation of Securities Commissions (IOSCO). This is especially important given the strong influence of the IOSCO's recommendations to date in shaping different regulatory frameworks and voluntary codes across the world and the inherently global nature and reach of the ESG ratings market.

It is also positive to see a particular emphasis throughout the consultation on various transparency measures, which we expect can support investors- and other users of ESG ratings- in gathering greater insights into ESG ratings products, including their envisaged objectives and methodologies. This added transparency will support institutional investors' decision-making processes and wider use cases, and we hope can incentivise investments that are aligned more closely to the UK's sustainability and climate change goals.

Alongside the FCA's proposals, wider steps will need to be taken by UK policymakers to support the role played by ESG ratings in financial markets and the wider economy, and how they can be well-placed to support the transition to a more sustainable future. In our view, this includes continued, proactive efforts from policymakers to swiftly enhance the quality, consistency, and decision-usefulness of underlying sustainability-related disclosures from companies and other asset classes. For example, through the swift delivery of the International Sustainability Standards Board's (ISSB's) IFRS S1 and IFRS S2.

Our recent thought leadership report published in December last year, *'Unlocking Growth Through Enhanced Sustainability Data'*, highlighted ongoing challenges here for UK and global institutional investors in regard to the consistency and comparability of ESG data from many issuers. Around two-thirds of respondents to our survey stated that this data was 'moderate' and no respondents rated this as 'very high'.<sup>2</sup> For ESG ratings providers, we know that their

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<sup>1</sup>UKSIF's consultation response is informed by our membership, though this does not necessarily reflect the views and perspectives of our entire membership, either individually or collectively.

<sup>2</sup><https://uksif.org/wp-content/uploads/2025/12/UKSIF-Unlocking-Growth-Through-Enhanced-Sustainability-Data.pdf>

ratings products and other products will continue to be heavily dependent on the underlying ESG information provided by issuers and other assets.

Above all, reliance on a core set of decision-useful, comparable sustainability disclosures- facilitated through the roll-out of the ISSB's baseline standards- will be hugely beneficial for ratings providers, users of ratings, and rated entities in the economy. This effective roll-out here at home, including through the FCA's consultation on the UK Sustainability Reporting Standards (SRS) for in-scope listed companies, as well as jurisdictions overseas, will enable CP25/34's policy objectives to be met effectively in practice.<sup>3</sup>

Overall, we believe the proposed measures have the potential to enhance users of ESG ratings and wider stakeholders' understanding and trust in these products, though our response sets out various recommendations for consideration from the regulator. In our view, these recommendations would advance competition and innovation in the UK's ESG ratings market, the practical operation of the UK's regulatory regime for different market participants and stakeholders, and support the delivery of positive outcomes for users of ESG ratings, service providers, and financial markets at large.<sup>4</sup>

#### **Executive summary – main points in UKSIF's response**

- **Support for the direction of travel of the consultation proposals:** Broadly speaking, we are supportive of a number of the consultation's main proposed measures. This includes the overall balance and details of the criteria set out under the 'two-layer' approach to disclosure, as part of the proposed transparency requirements for ESG ratings providers. We also welcome the wider rules highlighted on governance, internal systems, and conflicts of interest, and the application of the baseline standards to ratings providers.
- **Maintaining competition and dynamism in the UK's ESG ratings market:** With that said, we recommend that FCA actively considers additional proportionate measures to support the role of smaller ESG ratings providers under the UK's regulatory regime. This is a particular consideration as the ESG ratings market continues to evolve and mature. We believe this approach would bring tangible benefits to the UK's ESG ratings market, users of ratings products, and rated entities, and be consistent with the regulator's existing statutory operational objectives. While we recognise some challenges in adopting tailored measures for smaller, specialist providers, we outline various areas for exploration to support this specific group. This includes in relation to the regulator's authorisations process and UK presence requirements. Also, we recommend inclusion of a defined 'review period' (e.g. after 3-4 years) for the regulator to assess the impacts of requirements on smaller providers and market competition. There may be lessons to be drawn from the European Union's proportionality measures for smaller firms in time, as its regulatory framework beds in.
- **Enhancing comparability in disclosures for users of ESG ratings:** In relation to the transparency requirements, we would welcome high-level guidance on the envisaged presentation, length, and format of the minimum public disclosures and additional

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<sup>3</sup>Our response to CP26/5 can be found [here](#).

<sup>4</sup>The recommendations in our consultation response draw on perspectives from across our membership network, which includes institutional investors as well as ESG data and service providers. We hosted a number of private member roundtables with both these groups to inform our response.

private disclosures. This would have the objective of supporting comparability and usability across ESG ratings providers' disclosures. The regulator should consider encouraging industry-wide collaboration to develop a voluntary, 'fund factsheet-style' template for the minimum public disclosures. This could enhance the comparability in product-level information, by guiding users in assessing differences between products' objectives, methodologies, assumptions, weightings, and ESG data coverage. As part of this, it would be useful to consider interoperability with similar template approaches in overseas jurisdictions, such as the EU. On the minimum public disclosures, the disclosure of ESG data estimates (where used) should be incorporated in this specific layer, with a baseline summary of a provider's approach to data estimates valuable to include.

- **Targeted changes to the 'notification requirements':** We suggest several changes aimed at improving the operation of the notification framework, which we recognise is among the most challenging areas of the consultation. In our view, this includes confirmation that a prolonged period of delay and de-facto 'veto right' is not envisaged by rated entities on an ESG ratings provider's assessment. Also, the FCA should provide indicative examples of what constitutes an 'appropriate' notice period from a provider to entities to clarify the rules. We believe refinements in this area of the consultation would minimise the risks of added reporting burden, especially for smaller ratings providers. There will be lessons to be drawn from the EU's notification framework- one initial reflection is the two working-day window has been too short and led to challenges for market participants, particularly smaller rated entities.
- **Treatment of asset managers' internal ESG ratings:** We would welcome clearer confirmation in the final policy statement that asset managers' internal ESG ratings remain largely outside the scope of the UK's regime. Further illustrative examples should be set out for when exclusions would apply. One envisaged example is where a fund manager discloses its use of a proprietary, internal ESG rating within product disclosures, or investor communications, for a labelled fund under the FCA's Sustainability Disclosure Requirements (SDR) regime. Duplicative rules impacting this group, and institutional investors at large, should be minimised as far as possible, given the requirements for example outlined in the SDR and EU Sustainable Finance Disclosure Regulation (SFDR).
- **Additional clarification for overseas-based ESG ratings providers:** Further clarification would be beneficial for third-country ratings providers in relation to the upcoming authorisations process and long-term market access. This should aim to ensure that investors and other users of ESG ratings can continue to access ratings products and related products from non-UK based providers in a seamless manner, and without adding undue costs in the process for all groups. In relation to smaller ratings providers, it will be especially important to consider the authorisations process, making sure this does not pose a significant barrier to entry.
- **Interaction with the voluntary UK Code of Conduct:** We would very much welcome consideration by FCA and the International Capital Market Association (ICMA) over the future of the existing voluntary Code of Conduct and how it is envisaged to operate coherently alongside formal regulation. The interaction between the two initiatives will be very important in promoting clear expectations from policymakers to ESG ratings providers, users, and rated entities in the UK market. One option to maintain the

voluntary UK Code's ongoing relevance in the market in the longer-term would be to refocus its existing principles on ESG data products, given the regulation's primary focus on ratings. As scrutiny of managers' internal ESG ratings continues to evolve, a voluntary Code-based approach could be explored for this area of the UK's market.

**1. Do you agree with the proposed approach not to apply the Duty to rating providers? If not, please specify what you disagree with and why.**

We largely agree with this proposed approach from the FCA and we endorse the confirmation by the regulator in the consultation that ESG ratings providers should "consider" the Consumer Duty in their business activities.

Later in our response, we recommend a number of proposals for consideration to further promote a 'Consumer Duty-aligned' approach to the minimum public and additional private disclosures provided by ESG ratings providers, as part of the proposed transparency requirements. Our recommendations have the aim of encouraging disclosure from ratings providers that are as decision-useful as possible and usable to users of ratings, wider industry participants (such as distributors), rated entities, and other stakeholders.

**2. Do you agree with our approach to applying the high-level standards to rating providers? If not, please specify what you disagree with and why.**

**We largely welcome the proposed approach by the regulator to applying the high-level standards to ESG ratings providers.**

However, **we would reiterate the importance of considering proportionality for smaller rating providers in the UK's ESG ratings market.** This is to consider the position of existing smaller and specialist providers already operating in the UK, as well as smaller overseas providers that may be considering access arrangements to the UK market in future and the work that may be required as part of the FCA's upcoming authorisations process.

In our engagement with policymakers in recent years on ESG ratings regulation, we have generally highlighted the need for a proportionate policy approach for smaller and specialist ratings providers to promote more effective competition and innovation approaches from ratings providers operating in the UK.

Healthy competition among providers and market diversity will bring clear, tangible benefits to both ESG ratings providers and users of ratings. Many users, to varying degrees, will rely on ESG ratings and data sets provided by a relatively diverse range of providers.

For example, many of our institutional investor members will regularly engage with multiple service providers depending for instance on their specialism, data coverage, and other factors. This can often be with smaller, specialist ESG ratings providers that are focused on ESG topics where data coverage can be more uneven. For example, on biodiversity and nature-related data or social issues.

Many of our investor members strongly value disparate ESG data sets and opinions from providers, which can provide different insights informing their investment decision-making, voting and engagement, and other use cases. The depth and diversity of sustainability-related

information and analysis provided by smaller, specialist ESG ratings providers will need to be maintained as a priority, and where possible enhanced, under the upcoming regulatory regime.

As a priority recommendation in our response, we believe the regulator will need to, as far as possible, consider ways to further support the role of smaller providers to compete effectively in the UK and to be able to offer a diverse range of products to investors and other users.

**Our response highlights several recommendations for consideration in this area to promote proportionality.** This includes in regard to the authorisations process, the specific requirements for smaller overseas firms, and the operation of the ‘notification framework’ as part of the stakeholder engagement expectations. We expand on these areas later in our response.

More broadly, **we would like to see the regulator consider a defined ‘review period’ in the policy statement (e.g. within three to four years) to assess the impacts to date of requirements on smaller providers** and levels of market competition. Finally, one envisaged way to support this specific group could be further consideration of the operation of the FCA’s Regulatory Sandbox in relation to smaller firms and how barriers to market entry (perceived and actual) could be tackled, as well as scale up challenges.

**3. Do you think existing regulatory regimes sufficiently address the risk of harm? If not, which areas do you think need to be addressed and why?**

At this stage, we have not identified additional material areas that may need to be addressed by the FCA which are not already captured by existing regulatory requirements. We would support the regulator however keeping this under periodic review, including monitoring emerging risks of harm that may arise in future and broader market developments over time.

Should certain material gaps in the UK’s regulatory framework be identified, the regulator may wish to consider the role that could be played by the existing Code of Conduct supervised by ICMA or, where relevant, a similar voluntary code. We would envisage a similar code applying on either a voluntary, or ‘comply or explain’ basis, to address material areas not covered by formal regulation.

In this context, **a priority recommendation in our response is for clarification on the envisaged future interaction between the ICMA’s Code of Conduct alongside the UK’s regulatory framework**, including the degree of interoperability between these two initiatives.

This clarification exercise should seek to highlight a very clear delineation between the Code of Conduct and the UK’s formal regime. This would support the maintenance of best practices from ESG ratings providers and help differentiate between regulated ESG ratings products and less prescriptive, voluntary expectations applicable to ESG data products that are not inherently evaluative. It will be very important to avoid duplicative expectations and promote regulatory coherence between the UK’s upcoming regulatory regime and the Code of Conduct.

We would therefore welcome clearer confirmation of the FCA’s envisaged objectives for the Code of Conduct as formal regulation of ESG ratings is introduced in the UK. We support confirmation that the UK Code is primarily intended to apply to ESG data providers and data products in the market, rather than ESG ratings.

**At a later point in time, the ICMA's Code, and similar voluntary codes, could help respond to any emerging gaps in standards identified by the regulator**, including in a way that is cost effective for firms and can improve practices relatively quickly. As other jurisdictions including now the EU continue to consider their approaches to voluntary codes, we expect there to be lessons for FCA to draw on from these experiences of relatively flexible industry-wide codes.<sup>5</sup>

Finally, in relation to investment managers' internal ESG ratings, we agree with the exclusions set out in the Statutory Instrument (SI). At a later date, the regulator could consider potentially a voluntary code of conduct for this segment of the UK market, aimed at capturing certain types of ESG ratings products not otherwise captured through other existing regulatory initiatives such as the SDR and SFDR.

This future work at a later date could draw on the ongoing implementation of the EU's framework. For example, considering any lessons from the experience of its transparency rules impacting asset managers' in-house ESG ratings.<sup>6</sup>

**4. Do you agree with the proposed minimum public disclosures listed in Table 2? If not, please specify what you disagree with and why.**

We believe that **the proposed minimum public disclosures largely encompass the most material, decision-useful disclosures** to investors and other relevant stakeholders.

Importantly, we think that these disclosures would promote a balanced approach for ESG ratings providers and users of ratings. Specifically, by appearing to, in our opinion, preserve ratings providers' intellectual property, while also promoting meaningful understanding and engagement by users with providers' ESG ratings.

In our response to Q.5, we identify one specific area that we believe should be carried over from the additional disclosure layer to the minimum public disclosures.

**5. Are there any key minimum public disclosures missing from the proposed list in Table 2? If so, please specify which disclosures and why they should be included.**

In our view, **one decision-useful disclosure currently missing from the proposed list for the minimum public disclosures relates to ESG data estimates**. We recommend that the disclosure item '*How data is estimated (if applicable)*' be included within the minimum public disclosure layer.

This could take the form of a broad, high-level summary of an ESG ratings provider's approach to the use of data estimates where relevant, without requiring overly granular or commercially sensitive detail. For example in practice, this would involve more of a focus on this information within providers' ratings methodologies, rather than disclosure at the individual rating-level.

We support this change in the transparency rules for several reasons, including the following.

- The clear demand among many users of ESG ratings for greater transparency over ESG data estimates, including over which specific underlying ESG data points within ESG ratings products may have been estimated, as opposed to directly disclosed by issuers.

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<sup>5</sup>The regulator may wish to assess the experience of a possible voluntary code in the EU, which is expected to focus mainly on ESG data products and potentially also investment managers' internal ratings.

- Linked to this, feedback from many institutional investors that we work with in our network that this remains a vital area where current transparency is insufficient, and where improved disclosure would enhance users' ability to interpret ratings outputs.
- ESG data estimates play an increasingly prominent role across various areas of corporate reporting on climate and sustainability topics. This is particularly the case in areas such as Scope 3 greenhouse gas (GHG) emissions and other complex areas of sustainability and climate-related reporting for organisations. In regard to Scope 3 emissions, the role of estimates is likely to prove more important under the UK's evolving corporate reporting frameworks. For example, should the regulator's existing 'comply or explain' policy approach for reporting be retained under CP26/5.
- The relevance going forward of ESG data estimates is expected to grow further across the broader data ecosystem, both in the UK and internationally (including the EU). In the EU, this is in light of some EU issuers potentially disclosing less information that is financially material to the market in response to regulatory simplification initiatives (e.g. EU 'Omnibus I').<sup>7</sup>
- Finally, this specific disclosure would be valuable not only to direct users of ESG ratings and rated entities, but also to other participants in the financial services ecosystem, such as distributors and financial advisers.

**6. Do you agree with the proposed disclosures for direct users and rated entities and approach to onward sharing? If not, please specify what you disagree with and why.**

While we broadly agree with the objectives relating to 'onward sharing' of proposed disclosures to support users to share relevant information where appropriate with third parties, we envisage various implementation challenges potentially in the investment chain. These challenges would need to be addressed by the regulator to ensure that these requirements can work well in practice.

For instance, there may be risks that some ESG ratings providers experience some pressures to share certain commercially sensitive information with users and rated entities. Or alternatively, 'over-share' information that may not be well-understood by some UK retail clients and lead to misinterpretation once this information has been passed through various layers in the investment chain. The strong intermediation that is a longstanding feature within the UK's investment landscape may not marry up well with the proposed rules, despite their welcome intention.

**We suggest the regulator highlight brief examples of specific information that would be envisaged to be disclosed by ESG ratings providers as part of the 'onward sharing' process.** This could include a high-level description of different data sources utilised by providers and could cover details of the following: public reports, public information provided by a rated entity, NGO reports, publicly available online information, media reports, and controversies.

By contrast, information excluded as part of 'onward sharing' could reasonably include: licensed datasets where disclosure could breach contractual intellectual property, proprietary algorithms, or derived metrics that are unrelated to raw ESG data from companies.

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<sup>7</sup>We would expect data estimates, for example in the EU, to become an increasingly utilised avenue for scrutiny of companies' sustainability-related disclosures and their objectives. Particularly, owing to CSRD reducing the scope of companies disclosing material information to the market, and ongoing challenges in data measurement in areas like Scope 3 GHG emissions.

An appropriate balance of information would need to be specified by FCA as part of the 'onward sharing' requirements to maintain ratings providers' intellectual property, while providing rated entities and direct users with more transparency and meaningful disclosure, and in a way that does not burden these groups with too much information.

Over time, the regulator may wish to encourage a consistent approach to implementation of these requirements in the UK's framework through a common, high-level disclosure template.

**7. Are there any key minimum disclosures missing from the proposed list in Table 3? If so, please specify which disclosures and why they should be included.**

No, we have not identified decision-useful minimum disclosures missing from this list of additional disclosures to direct users and rated entities.

**8. Do you agree with our general expectations for transparency? If not, please specify what you disagree with and why.**

Yes, we largely agree with the general expectations outlined in regard to transparency.

To further support the regulator's objectives to promote accessibility and clarity of ESG ratings and ratings providers' disclosures, we would strongly **welcome FCA highlighting under the general transparency expectations clearer expectations on the envisaged presentation, length, and format of ESG ratings providers' disclosures**. This would be particularly valuable and relevant we believe for the first proposed layer of disclosures.

Greater consistency in this area, without the regulator's expectations being too prescriptive, would help users and rated entities access, and practically digest, decision-useful information on ratings providers' approaches to ESG ratings, while providing more certainty for providers engaged in these disclosures.

It could help minimise the risks of significant divergence in service providers' disclosure practices over time and of 'disclosure overload' by some firms, which would have negative consequences for ratings providers and stakeholders trying to digest this information. Importantly, these risks would undermine the regulator's objective of promoting more transparency in the ESG ratings market.

Linked to this, we foresee a scenario in which one ESG ratings provider- particularly relevant for the first disclosure layer- produces a relatively streamlined disclosure document of for example 3-4 pages, versus another ratings provider publishing much lengthier disclosures of for example 50+ pages. This potential scenario would help counter the consultation's objectives to encourage transparency and comparability of ESG ratings.

Linked to this recommendation for consideration of clearer expectations in this area of the consultation, **we support consideration from FCA of encouraging industry collaboration on the creation of a voluntary, high level 'fund factsheet-style' template for the minimum public disclosures**, in the first instance. This template would focus on providing relevant, technical disclosures for institutional investors and other users of ratings, as opposed to more 'consumer-friendly' information tailored to retail audience. Such an approach would be consistent with the regulator's objectives to promote greater comparability of ESG ratings products and for the transparency rules to encourage disclosure that is accessible, fair, clear, and not misleading.

Our recommendation would have the aim of supporting comparability in product-level information, through guiding users of ESG ratings and rated entities in more easily navigating differences in products' main objectives, methodologies, data coverage, weightings, the ESG factors being assessed, and other criteria. This may become more relevant over time as the diversity of this market continues to evolve further. It also could help reduce compliance costs over time for providers through standardisation of format, while very importantly preserving flexibility in disclosure of underlying methodologies.

As part of this collaborative industry-wide initiative, the regulator should encourage a diverse group of market participants from the ESG ratings provider community and investor community, in addition to other groups (e.g. rated entities and NGOs) to work together on such a template.

Another consideration is interoperability with existing disclosures approaches in overseas jurisdictions, including in the EU, to minimise reporting burden and cost pressures. This should be explored as part of any work, for example assessing the EU ESG regulation's secondary legislation relating to disclosure templates including how costs can be minimised as part of the production of templates. As ESMA turns its focus towards these standardised disclosure templates in the EU, the FCA should collaborate closely with ESMA to consider how respective templates in the UK and EU do not significantly diverge.

As well as challenges relating to transparency in ESG ratings products, **comparability has been a core challenge experienced by our investor members**. Institutional investors have often reported challenges in practically comparing, and understanding, the differences between rating products' intended objectives (i.e. whether the methodology focuses on financial versus double materiality), ESG data coverage, what ESG topics are being measured in practice, and other relevant areas. Investors continue to consistently report challenges in understanding the rationale for divergent ratings outcomes and why assessments may differ relatively considerably depending on the provider, while welcoming the diversity in opinions offered in the market.

**A voluntary template would therefore bring value in assisting our investor members to compare a baseline level of decision-useful information from ratings providers.** In the process, this would foster transparency and understanding for users of ratings and rated entities.

In relation to ESG data coverage specifically, users have often highlighted issues in understanding the completeness and coverage of underlying ESG data within ESG ratings products, which can sometimes appear ambiguous from users' perspective. Additional clarity on data coverage issues would provide insights for users in assessing the ESG screenings process for a given entity, and context for why it may have received a 'pass' or 'fail' on a given area of ESG, as part of an ESG screening output.

**Improved comparability and accessibility in disclosure, over time, from ESG ratings providers would also help address broader interpretation issues among industry stakeholders regarding the understanding of ESG ratings products at large,** bringing benefits for all groups. There continues to be a real need to generate improved understanding among wider stakeholders at large of providers' role in the ESG data and investment ecosystem, and the benefits that a rich diversity in ESG ratings and assessments can bring to financial markets.

Areas that could be incorporated initially within our recommended industry-led template could include: the stated objectives (single versus double materiality), an overview on the ESG data coverage and any material gaps, whether the rating is industry-relative and geographically-relative, a summary of the methodology (including details of the date and nature of the most recent change to the methodology), and high-level details on the approach to engagement.

**Care will need to be taken to ensure that a voluntary summary disclosure document does not simply add to the reporting burden for ESG ratings providers and other groups.** As mentioned, interoperability with existing international disclosure templates, including in the EU, will need to be considered closely and could help address potential burden.

Finally, the disclosure summary we propose should not be interpreted by any means as a tool to encourage standardisation of providers' approaches. We absolutely do not wish to see the UK's regime encourage homogenisation across providers' methodologies that would ultimately reduce the diversity of analysis and insights from providers', and unintentionally increase risks for users of ratings, but rather comparability.

**9. Overall, do you expect any significant challenges in implementing the proposed approach to transparency and minimum disclosures? If so, please specify which elements and the nature of the challenges.**

UKSIF does not have any views on this question.

**10. Do you agree with the proposed governance approach for rating providers? If not, please specify what you disagree with and why.**

We agree with the proposed governance approach for ESG ratings providers to promote the integrity and independence of their ratings. As previously outlined in our response, **we would reiterate the importance of proportionality in the regulator's approach towards smaller ratings providers.** One specific area in which this should be reflected relates to the governance proposals under the UK's regime.

In this context, **the FCA may wish to consider their expectations on UK physical presence and accountability requirements for smaller overseas providers.** These rules could potentially tighten over a period of time, as this group builds up their understanding of the UK's framework and capacity to implement the rules. We welcome the existing proposals stating that the regulator 'may permit' a smaller overseas provider to establish a branch structure rather than a UK-incorporated subsidiary, should it demonstrate that it has effectively managed the risks of harm to the UK market.

We support this existing language remaining in the final policy statement. **Ideally, this language would be more explicit to clearly indicate the regulator's expectations that a branch structure would likely be permitted under this scenario for smaller ratings providers.** This step would provide forward-looking certainty to smaller firms considering serving the UK market. Similarly, requirements relating to the presence of certain staff in the UK could be relatively looser for an initial period for smaller providers, before regulatory expectations are enhanced.

**We expect that the physical presence requirements will likely present particular challenges for smaller ratings providers** seeking to access the UK market and operate cross-

border with minimal disruption to their activities. Therefore, there may be an enhanced supportive role for the regulator in partially easing these specific requirements, for a limited time period, to reduce costs for this group and promote a level playing field with larger providers operating in the market.

A negative consequence that should be avoided would be that some smaller, specialist ESG ratings providers make a conscious commercial decision not to establish a UK presence if they judge that the costs of setting up this presence outweigh potential benefits (e.g. business revenues). This would have negative implications for choice and the diversity in products among investors and users in the UK market.

More broadly, it will be important for the FCA's policy statement to reiterate the envisaged focus on accountability in relation to the branch and its location, as opposed to the location of individual teams and ratings analysts, given that there are several references in the consultation where this focus appears relatively unclear. This will be relevant particularly for global ratings providers that may have complex organisational structures spanning a number of jurisdictions.

Linked to this point, we understand from the experience of the EU's framework that there has been a degree of ambiguity as to which specific employees are in scope of governance and conflicts of interest requirements, which the regulator may wish to draw on. Clarification would support ratings providers in creating appropriate internal compliance frameworks in response, while making sure appropriate oversight of UK activities is in place.

Finally, another consideration to support the role of smaller, specialist ESG ratings providers relates to the authorisations process to ensure this does not create additional barriers to entry. **The regulator could consider ESMA's approach in regard to smaller ratings providers**, in which this group are subject to a relatively lighter, three-year voluntary registration regime with lower fees and compliance rules.

As the EU's regulatory regime remains in its initial phase of implementation, this is a proposal that would require further review from the regulator to assess the support that would be provided in practice for smaller providers. In addition, there may be drawbacks to this tailored approach, given that some users of ratings may still expect their service providers, regardless of their size, to have full authorisation from FCA as opposed to some form of more light-touch regime.

**11. Do you agree with the proposed approach to systems and controls, including: a. Quality control and methodology b. Data quality and accuracy c. Record keeping d. Personal transactions. If not, please specify which elements you disagree with, what alternative approach you would suggest and why.**

In regard to proposals on quality control and methodology, we agree with the regulator's proposal to provide ratings providers with discretion over an 'appropriate notice period' for reviewing their methodologies periodically and informing users of any material methodology changes ahead of these coming into effect.

The regulator could include an additional, non-prescriptive provision here. Specifically, providing a high-level, informal expectation that ESG ratings providers may wish to choose to review their methodologies on an annual basis, disclosing any changes made here at this

timeframe to users of ratings and rated entities. We do not think this needs to be a prescriptive timeframe set out.

It could also state that ratings providers may choose voluntarily to provide slightly more regular updates than annually. For instance, in response to UK and global regulatory developments or any specific ESG controversies that may arise.

**12. Do you agree with the proposed requirement to give rated entities and users notice of material changes to a methodology? Should any other stakeholders also be given this notice?**

As highlighted in our response to Q.11, the proposals to give users of ratings and rated entities notice of material changes to a methodology are appropriate. We believe that ESG ratings providers should maintain discretion over judging what constitutes a given ‘material change’.

The regulator could consider making its proposals more explicit in regard to this discretion remaining with ratings providers, and explore indicative examples of what could constitute a ‘material change’ in the methodology for an ESG rating product, and also what would not constitute one.

For the latter case, one envisaged example is that a change in the methodology that does not impact the overall ESG rating, while another is the incorporation of new ESG data points with an ESG rating product, rather than a substantive change in the methodology which would fall under the definition of a ‘material change’ under the rules.

Additional clarity through illustrative examples would hopefully address the risks of ‘over-notification’ by some ESG ratings providers under the FCA’s regulatory framework and inconsistent interpretation in this area of the requirements across the market. We expect that this area of the FCA’s regime will be beneficial in providing added transparency to rated entities and users of the impacts that any material changes to methodologies have had on ratings. In our response to Q.15, we outline further details on this area of the consultation.

**13. Do you agree with our proposed approach to conflicts of interest? If not, please specify what you disagree with and why.**

**We largely agree with the proposed approach that is set out on conflicts of interest**, which positively is aligned to the approach of the IOSCO and ICMA’s Code of Conduct.

**14. Do you expect any challenges in implementing the proposed rules? If so, please specify which rules and the nature of the challenges.**

While we do not have detailed views on this area, as mentioned we envisage particular implementation challenges for smaller ESG ratings providers.

**15. Do you agree with the proposed approach for stakeholder engagement? If not, please specify what you disagree with and why, and if you have identified any gaps.**

We welcome various aspects of the proposed approach to stakeholder engagement. We believe this appropriately draws on lessons from the EU’s recent experience in this area of its regulatory framework for ESG ratings, for example by adopting a more principles-based approach by comparison.

We hope that the proposals can mitigate implementation challenges for ESG ratings providers, particularly smaller providers, rated entities, and users of ratings. For smaller specialist providers, a number of firms have consistently highlighted to us the high envisaged implementation costs for building the necessary internal compliance infrastructure to support stakeholder engagement. We do not wish to see these requirements create disproportionate barriers to entry for these firms providing ESG ratings.

We expect this will be an area of the UK's regulatory framework that will require a particular focus from the regulator and industry in the initial implementation period of the rules. In line with our call for a defined 'review period' of the UK's regime (e.g. after 3-4 years) to assess the impact of the requirements on smaller providers, this specific area should be given particular attention within the envisaged review we have recommended.

**We propose several additional high-level principles to be included in the stakeholder engagement rules** to support their effective and proportionate implementation. This would bring benefits for rated entities, users, ratings providers, and wider stakeholders.

These include the following:

#### **1. Indicative examples on 'appropriate' notice periods to rated entities**

The FCA should include several illustrative examples of proportionate notice periods, such as a 14 working-day window or similar timeframes. This would support consistency and avoid the implementation challenges experienced in the EU's regulatory regime. Here, a two working-day window has led to an increased burden on market participants especially on smaller rated entities and smaller ESG ratings providers in the EU.

We therefore agree with the regulator's decision not to adopt a mandatory short window, such as the EU's two-day period. Instead, a sufficient period of time will be needed for smaller rated entities to be able to respond effectively to ESG ratings providers' assessments, with two (or several) days too short for meaningful engagement from rated entities with providers. More generally, smaller and medium-sized rated entities generally experience more challenges in their interactions with service providers compared with larger entities. This is in light of their relative resource constraints and the main focus among some providers on larger issuers given that disclosure on sustainability issues will be more advanced here.

For smaller providers, we expect that two days would be very challenging in many cases to implement in practice and would increase cost pressures for this group. Alongside the additional clarity we propose, ratings providers should ultimately have the discretion to determine the appropriate notice period timeframe, in close consultation with rated entities.

#### **2. Clarification that a de-facto 'veto right' by rated entities is not envisaged**

This second principle we recommend should specify directly in the regulator's framework that should a rated entity not respond with any feedback to a service provider, then this would not necessarily hold back indefinitely the publication of a ratings assessment.

This would clarify the intent of the regulator's approach which is very principles-based, and while we welcome in principle this approach, if not revised it could foster lengthy disputes between ESG ratings providers and entities.

A protracted and costly ‘appeals process’ should not be inadvertently fostered through the UK’s regulatory framework. Instead, we would like to see the stakeholder engagement rules support a healthy, transparent dialogue between service providers and rated entity stakeholders. For investors, a de-facto ‘veto right’ would help limit firms’ access to decision-useful information on companies’ performance on sustainability issues, namely should they have to rely only on entities’ own disclosures. We believe this recommended principle would be consistent with the first principle we have confirmed above.

### **3. ‘Forward guidance’, where possible, provided by ESG ratings providers on annual assessment cycles of entities**

We envisage this as a ‘best efforts’ principle, stating that ESG ratings providers should seek to provide, where possible, a more consistent, forward-looking view year on year to their rated entities in regard to their ratings assessments. For example, this could be a broad indication as to which quarter within a calendar year an assessment may be expected to provide entities with more time to respond to requests.

This principle would seek to minimise risks of ‘minimal forewarning’ provided by some service providers ahead of ratings being formally published, and to support improved levels of preparation among rated entities. For instance, in managing inbound requests for data and making updates to providers’ data portals ahead of the publication of an assessment.

We understand currently that the window for various requests for information by ratings providers can shift from year-to-year, and also in a given year without much warning. I.e. as a ‘short-notice’ surprise that an assessment will be made.<sup>8</sup> Rated entities would benefit from more predictability in these notice periods over the long term and be able to engage in greater forward planning.

While we recognise the challenges with this proposed principle, it could be drafted in line with ‘best efforts’ (or similar) and could encourage service providers to consider forward-looking assessment plans (where possible). This would support predictability for rated entities and importantly in a proportionate manner for all groups.

### **4. ‘Best efforts’ approach to identifying appropriate contacts at rated entities**

Given that some ESG ratings providers may face various challenges in identifying an appropriate contact person at a rated entity- for example at smaller companies or sovereigns- this supports the case for the inclusion of ‘best efforts’ or ‘reasonable efforts’ language in the stakeholder engagement requirements.

This recommended provision would recognise that some ratings providers may not have direct contact necessarily with the entity they are rating. It should seek to ensure firms are not held directly responsible if appropriate contact information cannot reasonably be obtained from an entity.

The explicit recognition of a ‘best efforts’ approach would support more effective implementation of the stakeholder engagement rules under the UK’s framework. This would mirror similar expectations in the EU’s ESG ratings regulatory framework.

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<sup>8</sup>For example, anecdotally we understand that an ESG ratings provider could state that they intend to rate a given rated entity within one month, which can add to internal pressures for this entity needing to respond very quickly as a result.

## 5. Additional clarity on ‘material changes’ triggering notification

As previously mentioned in our response, this area of the proposed requirements could benefit from further specification. This includes clarifying what event(s) would constitute a ‘material change’ in a rating product triggering the notification requirement.

The FCA should confirm that the discretion for judging a ‘material change’ should lie with the ratings provider primarily. While, stating that relatively minor changes- such as an incremental shift in an underlying data point or a routine change in the methodology not impacting the overall rating- would not constitute a ‘material change’ under the rules. This reference currently in the consultation risks encouraging ‘over-notification’ practices from service providers on immaterial issues, and in response additional burden from rated entities.

In relation to ‘over-notification’ risks, some ESG ratings providers may face uncertainty over whether incremental, underlying data changes within ESG ratings products or evolving rating analyst views would consistently trigger formal notifications. More ‘business as usual’ analytical updates or new, additive qualitative insights from providers should not be primary specific cases to trigger notifications.

This would be a proportionate step for the regulator, given many ESG ratings products’ methodologies can evolve quite frequently. For example, as underlying data quality improves, industry standards and understanding shift, and as firms’ analytical approaches evolve.

This is compared to a significant change in the methodology. The regulator should provide indicative specific examples of what would constitute a ‘material change’ to support a focus in the FCA’s regime on events that could reasonably impact the overall outcome of an ESG rating, or its interpretation. Providing such examples would support more consistent application of the requirements across the UK market, and be particularly valuable for smaller providers developing new compliance processes.

Taken together, we expect these proposed changes we recommend on the stakeholder engagement requirements would bring particular benefits for smaller specialist ratings providers. Partly, this because many smaller, specialist firms may need to develop their ‘notification systems’ from scratch compared to larger providers, for example those firms with experience of the EU regime’s rules in this area.

## **16. Do you agree with the proposed approach for complaints handling? If not, please specify what you disagree with and why.**

We largely agree with the proposals outlined on complaints handling. **On the three-year complaints period time-window highlighted in the consultation, this appears largely appropriate.**

We would advise alignment between this window and the timeframes set out for other complaints processes for financial services firms under FCA regulations. A relatively lengthy period by comparison to the three-year window may risk encouraging the development of dedicated firms with responsibility for inquiring into complaints from users and rated entities.

**17. Do you expect any significant challenges in implementing the proposed approach for stakeholder engagement or complaints? If so, please specify which elements and the nature of the challenges.**

Yes, as highlighted in our response to Q.15 we identify a number of challenges in the implementation of the proposed stakeholder engagement rules and we suggest various refinements for exploration that could improve this area of the FCA regime's operation in practice.

**18. Do you agree with our proposal to not extend the Financial Ombudsman's compulsory jurisdiction to enable complaints about providing an ESG rating to be considered by it? If not, please specify what you disagree with and why.**

UKSIF does not have any views on this question.

**19. Do you agree with the Financial Ombudsman's proposal to not extend its voluntary jurisdiction to cover complaints about providing an ESG rating? If not, please explain why.**

UKSIF does not have any views on this question.

**20. Do you agree with the proposal to not provide FSCS cover? If not, please explain why.**

UKSIF does not have any views on this question.

**21. Do you agree with our approach of applying the standard (Core) SM&CR to ESG rating providers as it applies to most other FCA regulated firms? If not, what alternative approach would you propose?**

While we believe in principle that the SM&CR should be applied to ESG ratings providers, we believe that **clarification from FCA would be beneficial as to how a scenario of 'double implementation' of the requirements by ratings providers could be minimised.**

With the UK government indicating that a second phase of reforms on the SM&CR may follow the recent consultation that closed in October 2025, and with legislative amendments a possibility, there is a strong case for additional clarity in this area of the consultation.

We see a realistic prospect that the upcoming, new phase of work on this regime could take a lengthy period of time moving beyond the regulator's timings for finalising the UK's ESG ratings regulatory framework. This supports the case for a review of current proposals on the SM&CR in the consultation.

**For smaller, specialist ratings providers, there may be a case for a more gradual period of implementation of the newly revised SM&CR** in the UK to support a 'level playing field' in the UK's rating market and to address compliance cost pressures for this group. We expect that smaller firms may face particular challenges and costs complying with the SM&CR, especially for those that have not been previously authorised by the FCA.

**22. Does the proposed perimeter guidance provide sufficient support to help firms understand when FCA authorisation might be required? If not, what else should the guidance cover?**

**As highlighted previously in our response, we would welcome additional clarity on the boundaries of the perimeter guidance.** This is an area that has been frequently raised by UKSIF's institutional investor members in our engagement on the consultation.

This includes in relation to wider regulated activities and financial services groups, such as asset managers, investment consultants, distributors of ratings, and other actors. In regard to asset managers, **we would support clearer confirmation in the policy statement that managers' internal ESG ratings remain largely outside of scope** with examples provided for when specific exclusions may apply.

One such example that should be considered is where a manager discloses its use of a proprietary internal ESG rating within product disclosures or investor communications for a labelled fund under the existing SDR regime. In addition to managers' internal ESG ratings being covered to some extent by requirements under the SDR, there will be some obligations under the EU SFDR impacting this group. Avoiding overlapping regulatory requirements will be an important consideration for the regulator.

A separate area is distinguishing between ESG ratings, ESG scores, and certain ESG data products. In our response to HM Treasury's 2023 consultation, we acknowledged the inherent complexities in determining the types of ESG products that could fall within scope of the UK's regulatory regime. For example, those products that may, depending on an individual's perspective, fall in between ESG ratings products and ESG raw data.<sup>9</sup>

Clarification in the upcoming perimeter guidance would help minimise the unintended extension of the regulator's requirements. We expect there will be lessons to be drawn from the EU's scope for its regulatory framework, which we understand has encompassed a broader range of financial products and institutions than initially anticipated by financial market participants in the EU.

**23. Do you agree with our proposed application fee structure for ESG rating providers? If not, please explain why you disagree.**

UKSIF does not have any views on this question.

**24. Do you agree that the threshold to define larger ESG rating providers should be a forecast annual revenue of £250,000 or more? If not, please explain why you disagree.**

UKSIF does not have any views on this question.

**25. Do you agree with our proposed application of certain existing SUP rules and guidance to rating providers? If not, please specify what you disagree with and why.**

UKSIF does not have any views on this question.

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<sup>9</sup>Our response to HMT's ESG ratings consultation can be found here- <https://uksif.org/wp-content/uploads/2023/06/UKSIF-Response-HM-Treasury-consultation-Future-regulatory-regime-for-ESG-ratings-providers-30-June-2023.pdf>

**26. Do you have any comments on our proposal to apply the same approach to enforcement investigations and actions to rating providers as we do to other regulated firms, as set out in ENFG? If yes, please specify.**

UKSIF does not have any views on this question.

**27. Do you have any comments on our proposal to follow the same procedures for decision-making and imposing penalties in relation to rating providers and their personnel as set out in DEPP? If yes, please specify.**

UKSIF does not have any views on this question.

**28. Do you have any additional comments on our proposed rules and guidance set out in this CP, including where we could take an alternative approach, or think there are any other topics we should consider? If yes, please specify.**

**One additional comment relates to the envisaged interaction over the coming years between the existing voluntary Code of Conduct managed by International Capital Market Association (ICMA) and the FCA's regulatory regime.**

Further consideration will be needed in regard to the following issues here: the inter-links between these two initiatives, the extent to which they will be integrated together over time potentially, the extent of interoperability between the two (including high-level mapping ideally of where compliance with the Code would go some way to comply with the regulator's expectations), their respective primary objectives, and which areas of the market and precise types of the products each initiative will seek to mainly encompass.

One way of maintaining the voluntary Code's ongoing relevance in the longer-term would be to refocus its principles on ESG data products, given the FCA regime's primary focus on ESG ratings. We would welcome confirmation from the regulator and ICMA that the Code is primarily intended to apply to ESG data providers and data products in the market, as opposed to ESG ratings.

Also as previously mentioned, as scrutiny of fund managers' internal ESG ratings continues to evolve, a similar Code could be considered specifically here and if taken forward, this approach should be consistent with ESMA's upcoming requirements on ESG disclosures for managers.

**29. We have aimed to make the proposed rules in Appendix 1 as clear and straightforward as possible. Are there any specific areas you found difficult to interpret or apply? If so, please identify the relevant rule(s) and explain the difficulty.**

UKSIF does not have any views on this question.

**30. Do you have any comments on our cost benefit analysis?**

UKSIF does not have any views on this question.