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Dear Sir / Madam

Consultation Paper CP25/34 - ESG (Environmental, Social, Governance) ratings: Proposed approach to regulation

The Chartered Governance Institute is the professional body for governance and the qualifying and membership body for governance professionals across all sectors. Its purpose under Royal Charter is to lead effective governance and efficient administration of commerce, industry, and public affairs working with regulators and policymakers to champion high standards of governance and providing qualifications, training, and guidance. As a lifelong learning partner, the Institute helps governance professionals achieve their professional goals, providing recognition, community, and the voice of its membership.

One of nine divisions of the global Chartered Governance Institute, which was established 135 years ago, The Chartered Governance Institute UK & Ireland represents members working and studying in the UK and Ireland and many other countries and regions including the Caribbean, parts of Africa and the Middle East.

As the professional body that qualifies Chartered Secretaries and Chartered Governance Professionals, our members have a uniquely privileged role in companies' governance arrangements and many of them are directly responsible for their company's relationship with the ESG ratings agencies that are the subject of this consultation. They are therefore well placed to understand the issues raised by this consultation document. In preparing our response we have consulted, amongst others, with our members. However, the views expressed in this response are not necessarily those of any individual members, nor of the companies they represent.

Our views on the questions asked in your consultation paper are set out below, together with some general comments on the issues raised.

General comments

The Institute supports bringing ESG rating providers within the FCA's remit. The market is influential, expanding rapidly and currently heterogeneous. A proportionate, targeted regime will improve transparency, reliability and trust without restricting innovation. Regulation is necessary because ESG ratings increasingly shape investment decisions, risk management and fund construction, yet current market practices show low methodological transparency, weak systems and controls, insufficient governance and conflicts of interest concerns. These shortcomings undermine market integrity and investor confidence.

The layered rulebook approach is appropriate. Applying core FCA standards, including Threshold Conditions, Principles for Businesses, Systems and Controls, General Provisions and SM&CR, alongside ESG-specific rules addressing methodology transparency, systems and controls, governance, conflicts and stakeholder engagement, ensures that risks unique to ESG ratings are effectively mitigated. The combination aligns with international standards and leverages FCA experience regulating benchmarks and credit rating agencies.

Transparency is the primary regulatory remedy. Providers should disclose publicly their purpose, scope, methodology, data sources, review cadence, conflicts and complaints handling. For rated entities and direct users, disclosures should additionally include factor-level explanation, data lineage, estimation methods and change logs, with onward sharing permitted to maintain clarity throughout the investment chain.

Conflict management must be bespoke and strict. Providers should address cross-selling, issuer-paid models, sales-analyst separation and staff personal dealing. Elimination or robust control should be the default, with disclosure only as a last resort. Governance and systems and controls should anchor accountability, requiring the UK authorised entity to maintain operational responsibility, including over outsourced and intra-group activities, maintain model governance and validation, keep reproducible records and notify material methodology changes in advance.

Stakeholder engagement is essential but must be safeguarded. Providers should give pre-publication notice for first-time ratings, facilitate structured factual error correction, ensure fair access for smaller entities and document processes to resist undue influence or lobbying. Ombudsman and FSCS coverage are unnecessary because harms relate to wholesale market integrity rather than retail redress. The bespoke complaints process and FCA supervision are sufficient, while retail complaint channels should remain with product manufacturers and distributors.

Perimeter guidance is broadly sufficient but could benefit from clarification of borderline cases, including standalone services, influence on investment decisions, hybrids of data and ratings, AI-derived scores, sovereign or asset-level ratings, and intra-group or cross-jurisdiction arrangements, to reduce authorisation uncertainty. Implementation should be phased, practical and proportionate, recognising challenges around data lineage,

outsourcing oversight, personal dealing monitoring, methodology change governance and onward sharing. Templates, minimum notice norms and transitional expectations will support consistency, while Core SM&CR provisions embed senior accountability from the outset.

Overall, the Institute supports the FCA's proposals. They establish a coherent, proportionate and internationally aligned framework that strengthens market integrity, enhances transparency and usability of ESG ratings, safeguards investor interests, and provides providers with a structured path to compliance.

Response to the questions

Question 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.

Yes, the Institute supports the FCA's proposal not to apply the Consumer Duty to ESG rating providers. The activity is primarily wholesale, serving institutional clients rather than retail consumers. Extending the Duty to firms operating exclusively in wholesale markets would conflict with established regulatory principles of proportionality and activity-based regulation.

Despite supporting the FCA's position, indirect retail impacts arising from the use of ESG ratings in retail investment products warrant ongoing attention. Ratings influence product design, fund labelling, disclosures and asset allocation decisions in retail portfolios, including defined contribution pensions. Poor-quality ratings can contribute to misclassification of sustainable products, distorted assessments of value for money and unreliable risk signals, highlighting the need for continued supervisory oversight even where the Duty does not apply directly.

The FCA's alternative approach, focusing on transparency, clarity and non-misleading disclosure, provides a proportionate and effective mechanism to protect retail consumers along the value chain. A targeted disclosure regime allows product manufacturers and distributors, who are subject to the Consumer Duty, to understand the scope, limitations and assumptions in the ratings they use. This supports compliance with the Duty, anti-greenwashing rules and the Sustainability Disclosure Requirements.

Applying the Consumer Duty upstream would risk regulatory duplication, create inconsistencies with the FCA's broader framework and could stifle innovation in a market where methodological experimentation drives competition. The consultation correctly notes that imposing retail-facing obligations on wholesale firms would not meaningfully enhance consumer protection and may generate confusion across the regulatory landscape.

To reinforce the approach, the FCA should commit to a time-bound review of the Duty's applicability once the regime has matured and retail use of ESG-labelled products expands. Rating providers should be required to supply product manufacturers and those companies the subject of rating, free of charge, with structured information on data provenance, methodological constraints and material changes over time, ensuring that Duty-regulated firms can accurately reflect the reliability and limitations of ratings. The FCA should also monitor whether providers begin offering tools or services that directly influence retail decision-making, which could necessitate revisiting the Duty's scope.

Question 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.

Yes, the Institute supports the FCA's approach of applying high level standards to ESG rating providers. The framework is proportionate, coherent and aligned with the sector's risk profile. It successfully combines existing cross-sector rules with targeted adaptations that reflect the operational and analytical characteristics of ESG ratings. Prudential resilience, outsourcing reliance and potential financial crime vulnerabilities should remain under close supervisory review as the market evolves.

The FCA's decision not to introduce bespoke prudential requirements is appropriate. Rating providers do not hold client assets, create direct consumer liabilities or pose systemic risk, particularly given that most users rely on multiple ratings sources. Existing requirements under Threshold Condition 2D, COND 2.4 and Principle 4 provide a suitable baseline for financial adequacy, reinforced by wind down planning expectations. Avoiding unnecessary capital requirements supports market entry and innovation. Ongoing monitoring of market concentration is necessary, as dominance by a few providers could materially increase the impact of prudential failure.

Applying SYSC 4–9 is well judged. ESG ratings are information rich and operationally intensive, requiring strong governance, staff competence, data management and internal controls. Elevating outsourcing rules to binding requirements is appropriate, given the reliance on external data suppliers, technology providers and offshore research teams. Exempting firms from MLRO obligations is proportionate, as ratings activities fall outside the Money Laundering Regulations. Using the bespoke conflict of interest rules in ESG 6, rather than SYSC 10, strengthens regulatory coherence by addressing conflicts arising from consulting services, issuer-paid models and data provider relationships.

Operational risks require ongoing vigilance. Extensive outsourcing could create resilience vulnerabilities without robust due diligence and supervision. Firms must maintain competence across financial analysis, sustainability science and data modelling, a combination not always fully embedded in new ESG providers.

Application of GEN is straightforward and effective. Providers must not imply FCA endorsement and must communicate their regulatory status clearly. This enhances transparency in a market where misperceptions could undermine trust, imposing minimal burden on firms.

The FCA's approach to financial crime and market abuse risks is suitably risk aligned. ESG ratings influence market behaviour through benchmarks, passive strategies and asset allocation models. UK MAR obligations, reinforced by SYSC 6 and the Financial Crime Guide, provide a proportionate framework. Personal transaction requirements are justified given the potential for staff to act on non-public information regarding future rating changes. Risks remain in ESG data supply chains, where external consultants, NGOs, satellite imaging providers and regional research partners may create blind spots for MNPI or weaknesses in data handling. As ESG ratings integrate further into indices and digital tools, market abuse risks may increase.

Question 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?

Not entirely. The FCA's existing regimes for asset management, investment research and benchmark administration provide a useful baseline but do not fully address the specific risks associated with ESG ratings. These risks arise from opaque methodologies, heterogeneous data practices, ESG specific conflicts of interest, weak governance models and the embedding of ESG outputs into retail facing products. Targeted enhancements are necessary to ensure ESG information used within regulated activities delivers reliable, comprehensible and comparable signals to investors.

Current frameworks mitigate general conduct and governance risks. Asset managers, investment firms and benchmark administrators producing ESG related assessments operate under COND, PRIN, SYSC, GEN, the anti-greenwashing rule, fair communication standards, research governance and benchmark oversight. These regimes provide protections around clear communications, appropriate systems and controls, conflict management and methodology governance. However, the inherent characteristics of ESG ratings mean these generic rules do not fully capture the principal sources of harm.

ESG methodologies differ widely in objective, scope and design. Firms often rely on estimates, scraped data, external vendors or controversy monitoring services. Existing regimes do not require disclosure of the purpose of ESG metrics, the materiality logic underlying scores, the extent of data estimation or the assumptions embedded in models. This opacity creates interpretation risk for downstream users and may misalign the ESG signal intended by the producer with that understood by investors. Conflicts of interest also differ from traditional research, as ESG providers may simultaneously offer consulting, issuer feedback or engagement services alongside mass

market ratings. Existing conflict frameworks do not address these business models, leaving gaps that could undermine analytical independence. We regularly hear complaints from companies where two different ratings providers have rated them significantly differently; that is, of course, their right but companies tell us that they find it difficult to get any explanation of the ratings applied and, if they do, they are typically opaque.

Governance models are another structural weakness. ESG ratings are dynamic, frequently updated in response to evolving taxonomies, new datasets, revised factor weightings or controversy assessments. Without clear change management protocols, users may face sudden shifts in scores that materially affect fund eligibility, index construction or product labelling. Current regimes do not impose sufficient transparency or stability around model changes. Outsourcing creates additional vulnerabilities, as many ESG assessments depend on third party data collectors, offshore teams or specialist analytics providers. These arrangements present risks relating to data quality, resilience and market conduct that existing rules do not fully capture in ESG specific contexts.

These shortcomings become more pronounced when ESG ratings or derived signals are embedded into retail facing products. Asset managers using internal ESG ratings in fund marketing risk misleading investors if they do not clearly distinguish between risk-based and impact-based assessments or between entity level and portfolio level indicators. Fair communication rules prevent misleading statements but do not mandate ESG specific disclosures such as estimation rates, data coverage, treatment of controversies or comparability across sectors. Research regimes ensure independence and fair presentation but do not require methodological transparency when outputs influence product construction. Benchmark administrators face similar limitations: index methodologies are governed, yet there is insufficient transparency regarding ESG inputs driving eligibility screens, weighting adjustments or rebalancing triggers.

Across these regimes, general rules reduce baseline risks but do not address the distinctive analytical and operational features of ESG ratings that can create harm when outputs shape investment decisions. Targeted enhancements should include a standardised transparency framework clarifying the objective, unit of analysis, data sources, estimation practices, limitations and change management processes for any ESG rating used within regulated products. Conflict of interest frameworks should extend to ESG specific business models. Firms should maintain robust model governance, validation and change control procedures with appropriate disclosures to users. Outsourcing arrangements must include enhanced due diligence, resilience testing and market conduct safeguards reflecting the ESG data supply chain. Manufacturers and distributors should be permitted, and in some circumstances required, to pass through essential ESG information to retail investors to ensure clarity on what a rating measures and what it does not.

In conclusion, existing regimes provide a strong foundation but do not fully capture the specific characteristics and risks of ESG ratings. The FCA should maintain proposed exclusions to avoid duplicating permissions while

enhancing relevant regimes with targeted ESG requirements. This approach preserves proportionality, supports innovation and competition, and strengthens protections for retail investors indirectly exposed to ESG ratings embedded in financial products.

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

Not entirely. The FCA's proposed minimum public disclosures in Table 2 are necessary, proportionate, and target the main risks of ESG ratings, including unclear methods, poor comparability, and inconsistent interpretation. The disclosures clarify the rating's purpose, assessment scope, data and factors used, analytical approach, and systems for managing conflicts and complaints. They address the harms the FCA has identified and create a clear baseline for transparency across a diverse market.

Clear statements of the rating's objective, scope, and scale are particularly important because they reduce confusion about what an ESG rating measures. Public disclosure of engagement practices strengthens fairness and supports stakeholder input and error correction. The methodology summary, covering factors, assumptions, data sources, model structure, weighting logic, AI use, review frequency, and the date of the last material change, is a major improvement on current practice. It helps users understand ratings and compare providers. Including risks, conflicts of interest, and complaints procedures further improves trust and market integrity.

Three areas need improvement to make the disclosures more useful and comparable. First, data usage should be more detailed. Table 2 requires only a narrative summary, but since coverage, estimation, and timeliness drive rating differences, providers should include simple metrics such as average data coverage, proportion estimated, and timeliness. These do not reveal proprietary methods but help users judge data reliability.

Second, disclosure of assumptions is too general. Users need a clear statement of the rating's philosophy, such as whether it reflects financial materiality, societal impact, transition alignment, or a mix. A brief positioning statement would reduce misinterpretation and support consistent use downstream, especially in retail products.

Third, methodology change disclosures should be stronger. Reporting the date and nature of the last change is useful but not enough for users who rely on ratings for indices, products, or regulatory labels. Providers should include a version number and a simple flag showing whether the change affects a significant portion of rated entities. This allows users to plan, assess impact, and maintain continuity without adding undue burden.

These refinements keep the structure of Table 2 but make the disclosures more effective. Clear data coverage, a defined rating philosophy, and stronger change reporting will reduce confusion and address the key risks identified.

In conclusion, the minimum public disclosures are proportionate and provide a solid foundation for transparency. Adding simple metrics, clarifying materiality, and improving change reporting will help all users, including retail investors, understand and compare ESG ratings confidently.

Question 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.

The proposed disclosures in Table 2 provide a solid foundation, but additional elements are needed to enhance interpretability and comparability. These enhancements improve the usefulness of ESG ratings for indirect users and rated entities without contractual access while remaining proportionate and protecting trade secrets.

A standardised statement of rating philosophy and materiality would be useful. Users must understand whether a rating reflects financial risk, societal impact, transition alignment, or a blended approach. A concise public declaration of purpose and materiality lens prevents misapplication, such as using financially material ratings to support impact claims. Data coverage, estimation rates, and timeliness require stronger disclosure. Current summaries of data types are insufficient. Quantified indicators of coverage, imputation rates, and data lag allow users to judge reliability and completeness without revealing proprietary models, enhancing comparability across providers. It is particularly important to understand how the data on which the rating is based is obtained – for example whether it is obtained by a sweep of public sources, including the annual report, or by the entity submitting data.

Methodology governance and change auditability should improve. Users face abrupt rating shifts without clear versioning or impact flags. Public disclosure of version identifiers, review cycles, and the likely effect of changes enables users to anticipate and manage rating updates. There should be a clear statement on whether prior year data is checked and retained for consistency if still applicable or whether the assessment is started from scratch on each occasion. Material changes from previous ratings should be clearly explained.

Feedback from our members highlights the importance of a clear statement as to whether, and if so, how, the methodology takes account of material topics assessed and assured as part of regulations e.g. CSRD / ISSB. Their concern is that rating agency criteria often do not accurately reflect the rated entity business model, nor do they apply a materiality lens. This results in a requirement to disclose information to meet rating agency criteria which is not material to the rated entity's business model and, therefore, contradicts the underlying principle of providing information which is useful and relevant.

Clear explanations of limitations and appropriate use are important. A short, plain language statement on what the rating is and is not intended to measure reduces misapplication and supports user comprehension.

Sector comparability must be explicit. Users need to know whether ratings are relative within a sector or comparable across sectors to avoid misinterpretation.

Ratings incorporating controversy assessments should disclose how controversies are identified, weighted, and applied and to what extent assessments of controversial facts are checked. This helps users understand sensitivity to news or short-term events.

The unit of analysis must be clear. Ratings may apply to issuers, instruments, assets, or funds, and may involve parent–subsidiary mapping. Public disclosure of the rated item and linkage rules prevents incorrect inferences.

Forward versus backward looking inputs should be signalled. Users need to know the degree of predictive modelling to assess uncertainty.

Where AI or machine learning is used, providers should indicate whether key judgments undergo human review and summarise safeguards for bias and data integrity. High level disclosure reassures users without revealing proprietary models.

These refinements align with the consultation's trade secret protections. They provide high level, descriptive information, reduce misunderstanding, and enable meaningful comparisons.

In summary, adding a materiality statement, quantified data coverage, enhanced methodology auditability, clear use limits, sector comparability, controversy policies, unit of analysis clarity, forward looking indicators, and AI governance cues would strengthen transparency, comparability, and decision usefulness while preserving commercial confidentiality.

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

Yes. The proposals are proportionate, risk aligned and address the information asymmetries and interpretability challenges identified in the consultation. They improve transparency for users who rely on ESG ratings in investment decisions, stewardship, product design and risk assessment, while giving rated entities visibility to correct factual inaccuracies and understand the drivers of their assessments. The rated entity should have access to and be able to share their score, especially as the current landscape is complex and duplicative so it is not possible to navigate effectively without sharing of information and the greater transparency that brings.

The disclosures in Table 3 tackle key harms. Direct users struggle to understand ratings that rely on complex qualitative judgments, estimated data and modelled outputs. Requiring detailed methodology, factor explanations, data sources, assumptions and weighting logic provides sufficient depth for users to assess whether

a rating is fit for purpose. This is critical where ESG ratings influence investment decisions, index methodologies or stewardship frameworks, as it supports due diligence and reduces the risk of inappropriate use.

Rated entities also benefit. They often have limited insight into how their activities are assessed, how coverage decisions are made, and how estimates or data gaps affect scores. The proposed disclosures provide meaningful information on data treatment and assessment structure, enabling constructive engagement in factual correction processes and reducing the risk of outdated or inaccurate ratings. This aligns with the FCA's goal of promoting transparent and accountable stakeholder interaction.

The FCA's onward sharing approach is necessary and proportionate. Indirect users, including asset owners, pension providers, retail distributors and index users, often access only rating outputs, not underlying methodology. Without onward sharing, they cannot interpret ratings accurately or meet obligations under the Consumer Duty and anti-greenwashing rules. Prohibiting contractual restrictions on sharing essential information ensures transparency across the value chain and prevents concentration of market power among providers who restrict access to methodological metadata.

Certain refinements would improve usability and decision usefulness. Disclosures would benefit from a standardised and structured format to enhance comparability and highlight methodological differences. Estimation disclosures should be expanded to include the degree of reliance on estimates, their sources, and associated confidence. Methodology change governance should be clearer, including a tabular record of material changes and qualitative assessments of likely score impacts, enabling users to anticipate shifts in eligibility, benchmarks or financing. Finally, clarification of parent–subsidiary mapping and other hierarchical rules is needed to prevent misinterpretation across corporate structures.

In conclusion, the proposed disclosures for direct users and rated entities, together with onward sharing provisions, are well designed and necessary to address key transparency harms. They enhance comparability, support due diligence and stewardship, and give rated entities a meaningful role in factual correction. With targeted refinements on format, estimation transparency, methodology change governance and group entity logic, the framework will deliver consistent, actionable and proportionate disclosure across the ESG ratings market.

Question 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.

The disclosures in Table 3 provide a strong foundation, but several essential elements are missing. Without these additions, users and rated entities will face gaps in interpretability, comparability and auditability, particularly

regarding data quality, methodological assumptions and the intended scope of ratings. Each proposed addition adds value, imposes minimal burden and does not compromise proprietary information.

The most important omission is a clear, standardised statement of rating philosophy and materiality. Users cannot determine whether a rating reflects financial risk, real world impact, double materiality or transition alignment without an explicit declaration. This is a principal source of misunderstanding and affects appropriate use, comparability and alignment with investment objectives. A concise, mandatory materiality statement would reduce misapplication and increase user confidence.

The framework should also require quantified indicators of data coverage, estimation and timeliness at both product and rating level. Users cannot judge reliability without knowing how much data is estimated, how much is reported, and how current it is. Simple metrics such as coverage percentages, imputation rates and data lag would materially improve interpretability without revealing proprietary weighting models. These indicators address a major technical gap.

A brief explanation of material limitations and intended use is also necessary. Users often conflate risk based and impact based ratings, leading to mislabelling, inappropriate product claims and heightened greenwashing risk. A plain language summary of appropriate and inappropriate uses would substantially reduce these errors.

Transparency on entity mapping and analytical units is required. Many methodologies involve parent–subsidiary mapping, consolidation rules or overrides, and the link between issuer, bond and fund level ratings is often unclear. Publishing these rules would improve interpretability for both users and rated entities, who struggle to understand how group level decisions or portfolio constructions affect individual ratings.

Methodology change governance is another important gap. ESG methodologies evolve frequently and sometimes materially. Users need to anticipate impacts on scores, eligibility criteria and index construction. A methodology version identifier, a link to a change log and a brief qualitative assessment of expected impacts would provide essential transparency without imposing excessive burden.

Where controversies influence ratings, providers should disclose how they identify, score and integrate them. Controversy driven movements can have immediate effects on investment decisions, yet users often lack visibility on thresholds, recency windows or weighting logic. Basic disclosure in this area would give important context.

Minimal AI governance disclosures are also needed where AI or machine learning affects ratings. Users should know whether outputs are reviewed by human analysts, how bias is managed and the known limitations of the system. This does not require revealing proprietary model details but improves trust and interpretability.

Finally, there should be a clear statement of how the rated entity can engage with the rating agency (for example by email, in meetings, etc.) and how it can access the underlying data supporting scores and respond to them.

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

Yes. The FCA's expectations for transparency provide a clear, proportionate and enforceable framework. They enhance accessibility, interpretability and reliability of ESG information while safeguarding intellectual property and methodological diversity. Additional guidance on accessibility, clarity and trade secret exemptions would improve consistency, but the framework is sound and aligned with the FCA's objectives of reducing market distortion, supporting user comprehension and promoting robust decision making.

It is important to note that whilst having access to the methodology is useful, having free and unlimited access to the scores against each component is critical to enable and effective response and ensure the score is accurate and informative. Consequently, we welcome particularly the statement in paragraph 3.16 of the consultation that:

"We expect rating providers to ensure disclosures are:

• Easily accessible, prominent and free to obtain for the relevant stakeholders.

• In a written format that is clear and easy to understand.

• Accurate, fair, and not misleading.

• Shared as required and updated as soon as practicable. "

This is of critical importance.

Question 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.

Yes. Several operational and governance challenges are foreseeable, especially for providers whose systems, data architectures and governance frameworks are not yet aligned with regulatory grade transparency requirements. These challenges do not undermine the regime's rationale but highlight where transition periods, standardised templates or FCA guidance could support effective and proportionate implementation.

Operational capacity will be tested. Many ESG rating providers operate multiple products with different scopes, methodologies and data models. Implementing product level and individual rating disclosures, and updating them promptly, requires substantial systems investment. Firms with fragmented or legacy infrastructures may struggle to automate consistent disclosures, particularly where methodologies rely on large volumes of third-party data or

controversy monitoring. New requirements on data lineage, estimation logic and coverage gaps will be especially demanding for providers without integrated governance systems. Smaller firms may face disproportionate burdens unless common templates or machine-readable formats reduce bespoke compliance work.

Methodology governance presents further challenges. Many providers currently use informal, undocumented or ad hoc model development processes. The FCA's expectations for review policies, stakeholder engagement, material change rationales and scheduled review cycles require formal governance structures. Establishing model risk committees, documentation standards, change registers and engagement mechanisms represents a substantial cultural and operational shift, particularly for rapidly grown firms without regulatory style controls.

Outsourcing arrangements add complexity. ESG ratings often rely on offshore research teams, third party data vendors, AI classification tools and external controversy screens. Meeting disclosure requirements may require renegotiating contracts, clarifying service levels and strengthening oversight of third party timeliness and data quality. Heavy reliance on external providers could also affect firms' ability to update disclosures promptly when methodologies or inputs change.

Interpreting the trade secrets exemption may cause inconsistencies. Providers may differ in defining proprietary information or overuse the exemption to avoid disclosing estimation practices or weighting logic. Without supervisory guidance, this could create uneven transparency and reduce comparability across the market.

Tailoring disclosures for diverse audiences is another challenge. Direct users such as asset managers need detailed methodological transparency, while rated entities require simpler explanatory content. Producing multiple formats and ensuring consistency increases operational complexity and risks contradictory messaging. Modular, layered disclosure structures and clear minimum standards could mitigate these issues.

Onward sharing obligations may require adjustments to licensing, contracts and data distribution. Many providers currently restrict redistribution of ratings or metadata. Lifting these restrictions will require contractual and technical changes to allow secure sharing across platforms and intermediaries without breaching intellectual property or data protection requirements.

In conclusion, the main implementation challenges concern systems upgrades, data governance, methodology formalisation, outsourcing oversight, trade secrets interpretation, audience specific disclosures and onward sharing arrangements. These challenges do not justify weakening the proposals. Transitional support, standardised templates and FCA guidance will help ensure consistent, proportionate and effective implementation across the market.

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

Yes, the FCA's governance approach is sound. It is proportionate, coherent and essential to ensuring that ESG ratings used in the UK market meet consistent standards despite global provider operations.

A few clarifications would further strengthen consistency and supervisory effectiveness. Specifically, clarifying UK presence, intra group governance and assessment requirements would support consistent implementation while preserving the integrity and independence the regime seeks to uphold.

Question 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.

Generally yes, the FCA's systems and controls proposals are well targeted to the risks inherent in ESG ratings and provide a strong regulatory foundation for methodological rigour, data governance, auditability and staff conduct. Enhancements around review frequency, model validation, impact assessments, data lineage, retention periods and broader personal transaction safeguards would improve consistency while preserving the proportionality and flexibility the FCA rightly emphasises.

Please note that feedback from our members is that these FCA requirements are currently not consistently met and this is a specific challenge when agencies use public source data sweeps for source data rather than data submitted by the rated entity (and are only contactable by email / portal communications to make corrections). One member reported to us that a ten-year-old piece of data, erroneously reported on a news website, had been used in its rating.

Question 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?

Yes. Advance notice of material methodology changes is important given the potential impact on ratings, product classifications and market behaviour. ESG methodologies are dynamic and can materially alter ratings for issuers and instruments. Without timely notice, rated entities and users face operational and financial risks. The FCA should specify minimum notice periods and ensure notification reaches all materially affected stakeholders.

We suggest that the FCA make it a specific requirement that rating providers must ensure ESG ratings are based on accurate and up-to-date information, supported by systems that promote reliability, independence and integrity of the data used.

Methodology changes can trigger significant rating shifts when factor weightings, controversy handling rules or data estimation logic are adjusted. These shifts can alter index eligibility, portfolio allocations, fund screening outcomes or financing terms linked to ESG covenants. Advance notice enables users to conduct impact assessments, adjust mandates or risk exposures, and update client communications. It allows rated entities to anticipate effects and manage factual inaccuracies.

Notice should reach additional stakeholders. Distributors, platform providers and analytics vendors embed ESG ratings into portfolios, retail platforms and comparison tools. Benchmark administrators require early visibility because rating changes can affect index rebalancing, weights and tracking portfolios. Lead time enables users to update systems and avoid propagating outdated information.

A baseline minimum notice period, 30 days for standard changes and 60–90 days for changes affecting a substantial portion of ratings, ensures predictability and aligns ESG rating practice with benchmark administrators and credit rating agencies.

Advance notice of material methodology changes safeguards market integrity ensures fair treatment of rated entities and allows users to prepare for consequential effects. Specifying minimum notice periods and including all materially affected stakeholders strengthens the regime and promotes consistent, predictable implementation.

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

Yes. The FCA's approach to conflicts of interest is proportionate, risk aligned and tailored to the unique conflict structures in the ESG ratings market. ESG ratings create conflicts that differ from those in traditional financial services. The framework prioritises analytical independence, mitigates commercial pressures and protects users from biased or unreliable outputs.

Several refinements would improve consistency and effectiveness. First, cross selling and bundling risks require clearer boundaries between commercial and analytical functions. Sales teams should not access information that could influence ratings, and structural safeguards should prevent commercial incentives from affecting outputs. Second, intra group conflict governance must be formalised. Multi-jurisdictional group structures create risks through shared resources or commercial arrangements. Global conflict registers, defined escalation routes and

segregation of duties would help UK entities maintain oversight. Third, AI enabled methodologies introduce emerging risks. Providers should disclose how AI processes are overseen, how biases are identified and what safeguards prevent AI from distorting analytical judgement.

The FCA's framework is proportionate, well targeted and addresses the key risks in ESG ratings. Strengthening expectations on cross selling, intra group governance and AI risks would enhance clarity and operational consistency while preserving independence, transparency and market integrity.

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

Yes. ESG rating providers face clear implementation challenges, particularly those with complex global operations, diversified services or legacy systems not designed for regulatory grade compliance. These challenges do not weaken the rationale for the regime but highlight where transitional support, standardised templates or guidance can ensure consistent, proportionate implementation.

Organisationally, providers will need to segregate rating functions from commercial teams. Many integrate sales, client service, data subscriptions, consulting and stewardship alongside ratings. Implementing formal separation requires clear reporting lines, reinforced information barriers, revised remuneration structures and stronger content management controls. Medium sized firms without prior regulatory experience may find this particularly burdensome, though it is necessary to protect analytical independence.

Charging model transparency adds complexity. Blended or volume-based subscription models embed revenue from rated entities across multiple service lines. Providers must disentangle and document these flows to identify conflicts, which may require extensive internal review.

Personnel arrangements also present challenges. Many ESG firms lack personal transaction monitoring systems common in investment management or regulated research. They must implement surveillance tools, pre-clearance procedures, employee registers and post trade oversight. Mapping indirect conflicts through NGOs, research institutions or other contributors to controversy assessments adds further operational complexity.

Global providers face additional hurdles. Distributed teams across jurisdictions must align with UK regulatory standards. Harmonising policies where local rules differ, embedding UK requirements into global workflows, and renegotiating intra group service agreements require coordination. Record keeping and conflict registers may demand integrated systems spanning multiple countries, which many providers currently lack.

Disclosure rules present further operational issues. Providers must reveal conflicts without breaching confidentiality, and deciding when disclosure is required under the "not reasonably confident" test may produce inconsistent interpretations, risking uneven transparency and competitive distortion.

In conclusion, these challenges, conflict identification, function segregation, global governance alignment, personal transaction monitoring, and disclosure judgment, are manageable. Transitional arrangements, supervisory support and standardised templates can ensure firms implement the rules proportionately and consistently, embedding independence, transparency and market integrity across the ESG ratings sector.

Question 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.

Generally, yes. The FCA's proposed approach to stakeholder engagement is proportionate, well targeted and necessary to reduce inaccuracies, enhance fairness and build trust in ESG ratings.

While we agree with the overall approach, several refinements would make the framework more effective and consistent. Firstly, effective engagement should not rely on emails and in-portal submissions. There should be an opportunity to discuss all inaccuracies, challenges and concerns rather than have to rely on emails and portal-submissions.

Secondly, effective engagement should be open to understanding more about the rated entity's business model and material topics (as assessed and assured under CRSD / ISSB) to ensure the entity is assessed under the criteria most relevant and informative for its stakeholders i.e. material topics.

Thirdly, the FCA should set minimum expectations for notice periods. Leaving timelines entirely to providers risks inconsistent treatment and may disadvantage smaller entities that require more time to review underlying data. Effective engagement should allow sufficient notice of a rating and sufficient time to respond and a notice period of ten working days is not sufficient for a busy company. There should also be a standard cadence of rating in the year so entities are aware of and can plan for when the work will be required. There should also be sufficient notice of any changes at all and the reason for the change, e.g. industry change bringing in new topics. This should also include the opportunity for the rated entity to discuss and challenge a new requirement in a meeting or on a call (not on email or through a portal).

Fourthly, structured formats for data requests should be encouraged. Without a standardised data file or summary, engagement processes risk becoming burdensome both for providers and rated entities. A clear, consistent structure, indicating which data points are reported, which are estimated, and where gaps exist, would streamline the process and improve transparency.

Fifthly, the FCA should introduce safeguards to ensure that engagement does not become a conduit for undue influence. The goal is factual correction, not negotiation of ratings. Providers should therefore be expected to document interactions, maintain records of suggested changes and the rationale for accepting or rejecting them, and demonstrate how inappropriate pressure is managed. This would protect methodological independence and mitigate concerns about lobbying or influence campaigns, particularly in politically sensitive sectors.

Finally, the FCA could clarify expectations for small and resource-constrained entities. Many companies lack dedicated sustainability teams and may struggle to respond promptly or effectively to data requests. Proportionate expectations, such as simplified correction templates or extended timelines, would support fairness while maintaining the integrity of the ratings process.

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

Yes, the FCA's complaints framework is well designed and proportionate. It promotes fairness, improves data quality and safeguards the integrity of ESG ratings. Strengthening complaint categorisation, timeliness standards, escalation procedures and protections against undue influence would further enhance consistency and effectiveness across providers.

However, several refinements would enhance clarity and consistency. Firms should classify complaints by type, such as factual errors, methodological queries, process concerns or independence challenges. A simple triage system would improve oversight, support timely responses and help the FCA identify systemic trends. Minimum expectations for timeliness, such as acknowledging complaints within a set period and providing updates for extended investigations, would ensure fairness without imposing undue burden.

Internal escalation pathways for unresolved or complex complaints should be clearly defined, including senior management involvement, to reinforce accountability. Providers should also document and manage attempts to influence ratings through repeated or strategic complaints, demonstrating how independence is maintained in the face of external pressure.

Finally, our members believe that reporting on complaints from and disputes with both service users and rated entities should be required.

Question 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. Implementation poses several material challenges, especially for providers with large global portfolios, diverse business models, or legacy systems not designed for regulatory-grade engagement and complaints processes. These challenges do not weaken the FCA's proposals; they indicate where transitional support, standardised templates, and guidance will help ensure consistent, proportionate implementation.

For stakeholder engagement, the main challenge is providing pre-publication data in a structured, reliable format. Many providers lack systems to produce consolidated files, distinguish estimated from reported data, or track data lineage across multiple sources. Significant investment may be required. Large providers must also manage higher volumes of pre-publication interactions. Rating thousands of entities creates operational strain unless triage, prioritisation, and workflow management systems are in place.

Strategic pressure and lobbying are also risks. Entities may attempt to delay publication or influence ratings. Providers must safeguard methodological independence while supporting factual corrections. Smaller entities may struggle to engage due to limited resources or ESG expertise. Providers may need to adjust timelines, simplify data requests, or offer proportional support, increasing administrative effort.

Managing systemic issues adds further complexity. Errors may originate outside the UK entity or across multiple teams. Providers need mechanisms to escalate recurring problems, coordinate cross-border remediation, and ensure consistency. The three-year window for raising complaints creates additional archival demands. Providers may need to reconstruct historical scores, methodologies, and data, which is difficult without robust archives and stable analytical teams.

In summary, key implementation challenges include structured data provision, resource demands for engagement, safeguarding independence, complaint classification, record-keeping, and aligning global operating models. These challenges support the FCA's principles-based approach and highlight the value of transitional arrangements, standardised templates, and supervisory guidance to enable proportionate and effective implementation.

Question 18: Do you agree with the proposal not to extend the Financial Ombudsman's compulsory jurisdiction to cover complaints about providing an ESG rating? If not, why?

The proposal is sound. Extending the Ombudsman's compulsory jurisdiction would be inappropriate and misaligned with market realities. A bespoke, FCA-supervised complaints regime is proportionate, coherent, and better suited to managing the risks inherent in ESG ratings.

A few clarifications would strengthen the framework. Complaints related to retail products using ESG ratings, such as mislabelled funds, should be handled by the manufacturer or distributor, not the rating provider. Strong FCA expectations on auditability, including record keeping, categorisation, and escalation, are essential since providers fall outside Ombudsman oversight. Guidance on cross-border complaints is also needed, clarifying how overseas group entities support the UK regulated entity in resolving issues.

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

Extending either compulsory or voluntary Ombudsman jurisdiction would be inappropriate. The bespoke, FCA-supervised regime is proportionate, clear, and aligned with the wholesale nature and risks of ESG ratings.

Clarifications would strengthen the framework. The FCA should communicate clearly where complaints should be directed and how retail investors are protected. Providers must avoid implying that voluntary Ombudsman coverage constitutes a consumer-grade protection or quality mark.

However it is achieved, an alternative and independent mechanism to register and deal with complaints must be put in place.

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

Yes. I support the FCA's proposal not to extend FSCS cover to ESG ratings. FSCS protection is designed for retail financial services where firm failure can cause direct, uncompensated financial loss. ESG ratings are wholesale analytical products; they do not create liabilities that FSCS is intended to cover. Extending FSCS would be inappropriate, disproportionate and could distort the FCA's accountability framework.

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?

The Core SM&CR strengthens governance, embeds accountability and aligns proportionately with the risks of ESG ratings.

Targeted guidance would strengthen implementation. Firms need clarity on allocating responsibility for methodology governance, data quality oversight, model validation and AI analytics. The FCA should encourage explicit assignment of these functions to Senior Managers, with clear expectations for maintaining analytical independence. Guidance is also needed on cross-border governance, showing how UK Senior Managers oversee non-UK entities contributing to ratings used in the UK market. Finally, the FCA should clarify the Certification Regime's application for roles with material influence, such as data scientists, methodology leads, model risk specialists and quality assurance teams.

Question 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?

Broadly, yes. The proposed perimeter guidance is clear, structured and materially improves understanding of when ESG rating activities fall within the FCA's regulatory scope. The question-and-answer format provides a logical decision pathway, covering key statutory concepts and linking them to practical examples. For most firms, this reduces uncertainty. However, several borderline areas need further clarification, particularly hybrid ESG products, territorial scope, the distinction between data products and ratings, and the interpretation of "standalone" services and outputs "likely to influence" investment decisions.

The guidance's core strength lies in its methodical structure. Sequential steps, assessing whether an activity is carried out "by way of business", qualifies as an ESG rating under article 63Z7, is likely to influence a specified investment decision, is provided from or into the UK for remuneration, and whether exclusions or exemptions apply, create a useful framework. Key terms such as "rating", "score", "opinion" and "established methodology" are clearly defined and aligned with statutory definitions. The guidance distinguishes regulated ratings from ESG inputs embedded in other services and provides practical direction for journalists, academics and charities.

Several ambiguities remain. First, determining whether an ESG assessment is "likely to influence" investment decisions is challenging, especially for multi-purpose outputs such as thematic indicators, climate alignment metrics, jurisdictional risk scores, controversy severity scales or supply chain analytics. Detailed examples illustrating when outputs are considered investment influencing would improve consistency.

Second, the boundary between ESG data products, which are out of scope, and ESG ratings, which are in scope, is unclear. Hybrid tools, such as lightly processed analytics, severity tiers, machine learning classifications or implied rankings, require more guidance. For instance, controversy datasets with severity tiers, heat map risk indicators, transition pathway metrics or portfolio level scores may or may not constitute ratings; further examples would clarify.

Third, the concept of "standalone" services needs expansion. Many providers operate multi-product, multi-channel models where the same assessment may appear internally, embedded in analytics packages, or as a separately licensed output. Illustrative scenarios or decision trees would help firms determine when a product becomes a standalone rating service.

Territoriality also requires clarification. ESG rating production often involves global operating models, cloud distribution, and cross-border intra-group transfers. Examples involving non-UK providers publishing ratings online, ratings provided to non-UK clients but redistributed in the UK, or overseas entities contributing to UK ratings would strengthen guidance.

Further guidance is needed on intra-group and private-use ratings. Exclusions for intra-group provision and bespoke contractual ratings are useful, but it remains unclear how these apply when ratings initially intended for private use are later shared with investors, or when analytical work is distributed across jurisdictions.

Finally, the guidance should link perimeter scope to the obligations triggered once authorisation applies. Firms need to understand the practical consequences for governance, transparency, systems and controls, stakeholder engagement, conflicts management and SM&CR, particularly when operating at the margins.

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

The two-tier fee structure is proportionate, well designed and aligned with FCA objectives.

However, some areas need clarification. The calculation of "relevant annual revenue from providing ESG ratings in the UK" is unclear for firms with multi-jurisdictional operations, blended data packages or enterprise licences without separately attributed revenue. Standardised rules on allocation, covering bundled offerings, intra-group transfer pricing, and global-to-UK revenue mapping, are important to ensure consistent, fair self-assessment.

The FCA may also consider transitional discounts or phased payments for low-margin or public-interest providers, such as those focused on biodiversity, human rights or SME-level assessments. This would support market diversity without undermining cost recovery objectives.

Worked examples for borderline scenarios, multi-product firms with partial UK revenue, ratings embedded in analytics platforms, or complex group structures, would improve predictability and reduce misclassification risk.

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.

The £250,000 threshold is broadly workable, proportionate and aligned with market conditions.

However, the FCA should consider to:

- Justify the threshold more clearly. The rationale for the threshold should be clarified. Some smaller specialist providers, such as those offering biodiversity datasets, human rights analytics, sector-specific tools or supply chain risk assessments, may exceed £250,000 in revenue but operate on thin margins with simpler operations. A pure revenue test could create inequities. The FCA should clarify whether the threshold reflects complexity, supervisory cost, market impact, or a combination.
- Confirm it applies to UK-specific ESG rating revenue only. The threshold must apply only to UK ESG rating revenue. Global enterprise licences or bundled products can obscure revenue attribution. Guidance on calculating relevant revenue, including treatment of bundled products, enterprise licences, global revenue attribution and intra-group transfer pricing, is necessary to ensure consistency.
- Issue guidance on revenue forecasting for complex or bundled models. New entrants may also need guidance on revenue forecasting. Start-ups should have clear methodologies for projecting revenue using signed contracts, past sales pipelines or conservative estimates.
- Consider future refinements to protect small, high-impact specialist providers. The FCA could consider future refinements. A multi-factor test incorporating headcount, number of rated entities, operational complexity, product lines or degree of outsourcing could better reflect supervisory burden. Alternatively, a tiered revenue structure (small <£250k, medium £250k–£1m, large >£1m) could allow finer alignment of application fees.

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.

SUP provides the backbone for credible supervision of ESG rating providers. Targeted clarifications under SUP 2, SUP 5 and SUP 15 would enhance consistency, predictability and operational effectiveness across global, highly outsourced operations.

Guidance would strengthen implementation. Under SUP 2, firms need clarity on what "reasonable steps" means for accessing outsourced analytics, proprietary algorithms or non-public datasets. Under SUP 5, examples of when skilled person reviews are likely, such as persistent anomalies, methodology governance failures or clusters of stakeholder complaints, would help. Under SUP 15, ESG-specific notifiable event examples, large-scale scoring errors, model malfunctions affecting many entities, or errors impacting index or fund classifications, would improve consistency.

Question 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.

Supplementary ESG-specific guidance would improve predictability and support a smooth transition into the FCA's enforcement regime. Illustrative examples could include repeated failures to provide advance notice of material methodology changes, systemic data inaccuracies, persistent uncorrected errors, conflicts breaches affecting ratings, or personal account dealing by analysts.

Clarity on cross-border cooperation is also important. Firms must ensure contractual arrangements and intra-group structures enable FCA access and cooperation from overseas affiliates and outsourced providers. Guidance on how this interacts with ENFG, including the use of memoranda of understanding and UK entity obligations, would strengthen operational readiness.

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.

Applying DEPP to ESG rating providers ensures consistent, fair and transparent decision making, credible deterrence, and integration of the ESG regime into the FCA's established enforcement framework. ESG-specific examples and cross-border expectations would further strengthen operational clarity and compliance.

Additional ESG-specific guidance, separate from DEPP, would improve clarity. The FCA could provide scenarios illustrating failings that may trigger enforcement, such as repeated failures to notify material methodology changes, persistent refusal to provide transparency disclosures, systemic uncorrected data inaccuracies, or personal account dealing by analysts covering the same issuers. These examples would guide firms without limiting FCA discretion.

Clarity on cross-border cooperation is also important. Firms must ensure contractual arrangements and intra-group structures allow FCA access to information and personnel across overseas affiliates and outsourced providers. Guidance here would reduce uncertainty and support readiness for enforcement.

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.

The proposed regime is well designed and proportionate. However, several cross-cutting refinements would enhance clarity, comparability, and operational resilience without imposing undue burden or stifling innovation. The following areas merit consideration as the FCA finalises the regime and develops supporting guidance.

1. Strengthen methodology change governance

Methodology updates can have market-wide effects. The FCA should specify minimum notice periods for material changes: for example, a baseline of 30 days, with 60–90 days for high-impact revisions affecting a large portion of the rated universe. Requiring public version identifiers and brief qualitative impact assessments would enable users to conduct forward-looking analysis and mitigate cliff-edge effects. These refinements improve predictability and reduce disruption without disclosing proprietary detail.

2. Standardise data lineage and quality indicators

The regime would benefit from structured, comparable information on data coverage, estimation practices, and quality. Public, product-level metrics, such as coverage rates, estimation percentages, average data lags, and update cadence, would enhance interpretability. Providing users and rated entities with structured details on estimation methods, confidence levels, and source provenance would support replicability and due diligence. These measures are low burden but high value, targeting one of the most significant sources of divergence across ESG ratings.

3. Clarify rating philosophy and materiality lens

The FCA should require a concise statement outlining each rating's materiality lens, whether it reflects financial materiality, impact materiality, double materiality, or transition alignment. This would reduce misapplication,

prevent confusion when ratings are embedded in product design or marketing materials, and mitigate greenwashing risks by avoiding inappropriate use of risk-oriented ratings to substantiate impact claims.

4. Strengthen outsourcing oversight

Given the widespread use of outsourcing, including offshore research, automated controversy screening, cloud-based data processing, and AI-enabled analytics, the FCA should clarify expectations for oversight. This could include contractual audit rights, minimum service levels, timeliness and quality requirements, and explicit controls for data protection and potential MNPI exposure. Clear escalation procedures where outsourced failures affect rating integrity would enhance operational resilience.

5. Bolster conflicts of interest rules

ESG providers frequently combine ratings with data subscriptions, consulting services, bespoke research, and stewardship advisory. Explicit guidance on internal separation, remuneration guardrails, and transparency around potential conflicts would help ensure commercial incentives do not bias analytical outcomes.

6. Improve stakeholder engagement timelines

Minimum baseline timeframes for first-time rating notices and factual error windows would strengthen fairness and consistency, particularly for SMEs with limited capacity to engage at short notice. A benchmark of at least ten working days for initial notifications and five working days for updates would be proportionate, with flexibility for smaller entities facing high volumes.

7. Expand SUP 15 guidance

ESG-specific examples of notifiable events would help firms calibrate expectations. Relevant events include widespread data processing failures, unintended mass re-scoring, significant model deployment errors, or discovery of MNPI misuse in controversy monitoring.

8. Introduce light-touch AI governance expectations

Where AI or machine learning materially influences ratings, a short, plain-language statement describing the role of AI, human oversight, and high-level anti-bias controls would enhance transparency without impinging on intellectual property or methodological freedom.

Question 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.

The proposed regime is generally well structured, transparent, and proportionate. However, several clarifications and refinements would enhance interpretability, comparability, and operational resilience without imposing undue burden or inhibiting innovation.

1. Perimeter and "standalone" provision tests

- **Issue:** It is unclear when ESG assessments embedded in research, indices, or credit rating workflows fall outside exclusions if the same assessment is also provided as a standalone service. This is particularly challenging for multi-product providers.
- **CBA impact:** Misclassification could significantly change the number of in-scope providers (central estimate: 80; high case: 150), affecting compliance cost projections and estimated efficiency gains.
- **Recommendation:** Issue non-binding examples and decision trees to clarify standalone vs embedded products.

2. "Likely to influence a specified investment"

- **Issue:** ESG outputs serve multiple purposes (stewardship, risk assessment, disclosure, thematic research). Providers may not know how clients use outputs, and some may influence investment de facto.
- **CBA impact:** Interpretation affects both the regulatory perimeter and projected costs/benefits.
- **Recommendation:** Provide illustrative scenarios covering outputs like transition pathways, controversy scores, and sector ratings.

3. Territoriality and indirect distribution

- **Issue:** Global distribution chains, cloud platforms, and enterprise licences make it difficult to assess when UK provision is "reasonably foreseeable."
- **CBA impact:** Misinterpretation could materially distort UK presence cost estimates (central PV £9.82m).
- **Recommendation:** Include worked examples of UK ↔ non-UK flows.

4. Trade secrets vs transparency minima

- **Issue:** Firms must judge whether proprietary methodologies, AI/ML features, or estimation processes count as disclosable.
- **CBA impact:** Over-claiming trade secret protection could overstate efficiency gains.
- **Recommendation:** Issue illustrative boundaries between disclosable methodology and protected IP.

5. Methodology change notice

- **Issue:** "Appropriate notice" and "material change" are undefined, creating uncertainty.
- **CBA impact:** Lack of clarity may undermine projected efficiency gains (assumed 75% reduction in inefficiency).
- **Recommendation:** Provide indicative timelines (e.g., 30–90 days depending on impact) and materiality criteria.

6. Record keeping to reproduce a rating

- **Issue:** Principle-based requirement is unclear regarding data lineage, imputation parameters, model versions, analyst notes, and retention periods.
- **CBA impact:** Ambiguity risks over-engineering or non-compliance.
- **Recommendation:** Issue a minimum record-keeping checklist.

7. Personal transactions

- **Issue:** Application to related securities is judgment-heavy; many firms lack pre-clearance frameworks.
- **CBA impact:** Building monitoring systems may exceed CBA assumptions, particularly for medium-sized providers.
- **Recommendation:** Provide illustrative examples and templates for compliance monitoring.

8. Benefits estimation

- **Strengths:** Anchored in user surveys, clear decomposition, and sensitivity analysis (¶113–121, ¶164).
- **Fragilities:** Small sample sizes, independence assumption, and uniform 75% efficiency gain assumption.
- **Recommendations:**
    1. Model correlation between assessment spend and inefficiency share.
    2. Segment benefits by user type (asset managers, asset owners, banks, insurers).

3. Include scenarios for reduced efficiency gains due to extensive trade secret claims.

9. Cost estimation

- **Strengths:** Comprehensive cost catalogue, transparent Standard Cost Model, sensitivity analysis.
- **Areas to tighten:** Cross-sector cost proxies, UK presence assumptions, IT configuration differences, ongoing cost extrapolation.
- **Recommendations:**
    1. Triangulate ongoing governance/surveillance costs via a mini survey.
    2. Provide worked examples of UK presence (subsidiary, branch, hybrid).
    3. Differentiate IT cost archetypes (modular vs monolithic) for realistic bands.

10. Price pass-through and consolidation

- **Recommendation:** Monitor market concentration, entry/exit rates, and average pricing to validate assumptions.

11. Discounting and statistical treatment

- **Recommendation:** State the discount rate explicitly and include ±100bps sensitivity. Check for non-response bias and re-run confidence intervals under correlated benefit assumptions.

12. Counterfactual and second-order benefits

- **Recommendation:** Model self-improvement scenarios due to client pressure and track transition-oriented ratings, controversy reduction, and alignment indicators as part of monitoring.

The central conclusion, that user efficiency gains (central PV £669.62m) exceed total costs (central PV £91.85m), is credible. The CBA would be strengthened by:

1. Testing correlations between key benefit variables.

2. Segmenting benefits by user archetype.
3. Refining ongoing costs with data/AI-intensive sector comparators.
4. Publishing practical examples/templates to stabilise compliance effort.
5. Reporting market structure and pricing indicators.
6. Stating discount rate and including sensitivity.

These measures would improve interpretability, comparability, and operational predictability while maintaining a proportionate, innovation-friendly regime.

If you would like to discuss any of the above comments in further detail, please do feel free to contact the policy department at policy@cgi.org.uk.

Yours faithfully,

Valentina Dotto

Policy Adviser

The Chartered Governance Institute UK & Ireland