



# Consultation on Draft Code of Conduct for Environmental, Social and Governance (“ESG”) Ratings and Data Product Providers

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The ESG Data and Ratings Working group (DRWG) is seeking feedback on the Draft Code of Conduct for Environmental, Social and Governance (“ESG”) Ratings and Data Product Providers. The consultation period will run from 5 July 2023 to 5 October 2023 and interested stakeholders are invited to submit their comments via email to [drwgsecretariat@icmagroup.org](mailto:drwgsecretariat@icmagroup.org)

In addition to feedback on the Draft Code of Conduct, we would welcome feedback on the consultation questions in Annex 1.

The consultation will close on 5 October 2023 and the final code is due to be published at the end of 2023.

Consultation submissions will not be made public. Instead, a feedback statement may be shared to capture key issues raised by stakeholders.

# Contents

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Consultation on Draft Code of Conduct for Environmental, Social and Governance (“ESG”) Ratings and Data Product Providers	ii
<b>Background</b>	<b>1</b>
Introduction	1
Overview of the Code of Conduct	1
How the Code of Conduct was developed	2
Application and approach	3
<b>Scope and definitions</b>	<b>4</b>
Target Scope and Application	4
Terminology	4
Negative Scope	5
<b>Principles</b>	<b>6</b>
1. Principle on Good Governance	6
2. Principle on Securing Quality (Systems and Controls)	7
3. Principle on Conflicts of Interest	8
4. Principle on Transparency	9
5. Principle on Confidentiality (Systems and Controls)	10
6. Principle on Engagement (Systems and Controls)	11
<b>Annex 1</b>	<b>12</b>
Consultation Questions	12
<b>Annex 2</b>	<b>13</b>
ESG Data and Ratings Code of Conduct Working Group – Membership	13
<b>Annex 3</b>	<b>14</b>
Mapping of IOSCO recommendations against drafting of voluntary Code of Conduct for ESG ratings and data products providers	14

# Background

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## Introduction

- 1.1** Environmental, social and governance (“**ESG**”) factors play an increasingly important role in financial markets. This growth is leading to both a rapid increase in the use of and demand for related services, such as ESG ratings and data products, and to an increase in the scrutiny of their providers. As the landscape changes, concerns around the transparency, quality and reliability of ESG ratings and data products are emerging, calling for closer regulatory scrutiny of their providers. A Code of Conduct can help improve trust in these products, especially those relevant to the financial services sector, to guide investors in allocating their money to the right assets as well to alleviate the risk of greenwashing.
- 1.2** In November 2021, the International Organization of Security Commissions (“**IOSCO**”), in its final report “*Environmental, Social and Governance (ESG) Ratings and Data Product Providers*”, recommended that regulators “*could consider focusing more attention on the use of ESG ratings and data products and ESG ratings and data products providers that may be subject to their jurisdiction*”.<sup>1</sup> Measures for doing so could include legislative efforts or encouraging the development or following of voluntary industry standards or Codes of Conduct.<sup>2</sup> In the same report, IOSCO set out recommendations for ESG ratings and data products providers to improve practices across what can be seen as four key areas<sup>3</sup> of reform: transparency, governance, systems and controls, and management of conflicts of interest.
- 1.3** Following the IOSCO report, we have seen numerous jurisdictions globally develop and issue legislative proposals and/or Codes of Conduct addressing the recommendations. In the UK, regulation is being considered in parallel with the development of this Code of Conduct. Taking these developments into account and to try and ensure global interoperability and coherence (especially for global ESG ratings and data providers for which it is desirable to implement Codes of Conduct across global business models), during the time of drafting of this Code, the Secretariat and Steering Committee held various bilateral meetings with relevant regulators in other jurisdictions. The DRWG meetings have been attended virtually by observers from different jurisdictions, including the Monetary Authority of Singapore (MAS), the Japanese Financial Services Agency (JFSA) and the Ontario Securities Commission (OSC).

## Overview of the Code of Conduct

- 1.4** This Code of Conduct aims to foster a trusted, efficient and transparent market, by introducing clear standards for ESG ratings and data products providers and clarifying how such providers can interact with wider market participants. Based on IOSCO’s recommendations, the Code sets out six principles (each a “**Principle**” or, collectively, the “**Principles**”), with the aim of:
- (A) improving the availability and quality of information provided to investors at product and entity levels;
  - (B) enhancing market integrity through increased transparency, good governance and sound systems and controls; and
  - (C) improving competition through better comparability of products and providers.
- 1.5** By basing the Code heavily on the IOSCO recommendations, the Code is intended to be internationally interoperable, and it is hoped that it can represent an important step towards a globally consistent regulatory framework.

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<sup>1</sup> Nov 2021 - <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>

<sup>2</sup> Japan, Singapore and India have since developed (or are developing) regulation of ESG Data and Ratings providers based on IOSCO’s policy recommendations.

<sup>3</sup> Also see the FCA’s Feedback Statement 2022 (FS22/4) page 28: <https://www.fca.org.uk/publication/feedback/fs22-4.pdf>

**1.6** In line with IOSCO’s recommendations, the Code is structured around four key outcomes:

- (A) **Good Governance:** ESG ratings and data products providers are expected to ensure appropriate governance arrangements are in place that enable them to promote and uphold the Principles and overall objectives of the Code.
- (B) **Systems and Controls:** ESG ratings and data products providers are expected to adopt and implement written policies and procedures designed to help ensure the issuance of high quality ESG ratings and data products.
- (C) **Management of Conflicts of Interest:** ESG ratings and data products providers are expected to identify, avoid or appropriately manage, mitigate and disclose actual or potential conflicts of interest that may compromise the independence and objectivity of ESG ratings and data products providers’ operations.
- (D) **Transparency:** ESG ratings and data products providers are expected to make adequate levels of public disclosure and transparency a priority for their ESG ratings and data products. This includes their methodologies and processes to enable users to understand the product and any associated potential conflicts of interest, while maintaining a balance with respect to proprietary or confidential information, data and methodologies.

## How the Code of Conduct was developed

**1.7** In November 2022, the FCA commissioned the International Regulatory Strategy Group (“**IRSG**”) and the International Capital Market Association (“**ICMA**”) to convene an industry-led working group, (called the Data and Ratings Working Group or “**DRWG**”), and to act as the Secretariat for the development of a Voluntary Code of Conduct for ESG Data and Ratings Providers.<sup>4</sup> The DRWG brought together international stakeholders from the UK, the EU and the US representing ESG ratings and data products providers, rated entities, academics, and users of ESG data and ratings, such as asset managers, asset owners and banks. To develop the Code, the four co-chairs from Moody’s, M&G, LSEG and Slaughter and May, the Secretariat and DRWG members<sup>5</sup> met monthly in person with additional virtual subgroup meetings for targeted discussions on how the IOSCO recommendations should be incorporated. Additional roundtables with users of ESG data and ratings and with rated entities respectively were conducted, as well as several bilateral meetings held with ESG ratings and data providers (including non-commercial ones), to resolve outstanding issues and test draft Principles.

**1.8** As mentioned above, this Code of Conduct is based on IOSCO’s recommendations from its November 2021 final report. IOSCO’s final report contains ten recommendations in total, although the work of the DRWG only focused on the seven pertaining to “ESG ratings and data products providers”<sup>6</sup> (rather than on regulators, or other market participants such as rated entities or users of ratings and data products). IOSCO also integrated aspects of its recommendations into good sustainable finance practices in its November 2022 “Call for Action”<sup>7</sup> to prevent greenwashing.

<sup>4</sup> FCA Terms of Reference - <https://www.fca.org.uk/publication/documents/drwg-terms-of-reference.pdf>

<sup>5</sup> See Annex 2 for full list of DRWG Membership. Also available on the ICMA’s and IRSG’s websites: <https://www.icmagroup.org/sustainable-finance/esg-data-and-ratings-Code-of-Conduct> and <https://www.irsg.co.uk/drsg>

<sup>6</sup> IOSCO recommendations 2,3,4,5, 6, 8 and 9.

<sup>7</sup> IOSCO Good Sustainable Finance Practices: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD717.pdf>

**1.9** By following the Principles in this voluntary Code of Conduct, ESG ratings and data products providers will increase transparency in key areas relevant to their product offering which, in turn, should help to improve engagement with rated entities and the ability of asset managers, asset owners and banks to better understand and utilise ESG ratings and data products. While not the focus of this Code, other developments over time will also contribute to enhancing the trust in these products, such as corporate reporting and disclosure under the International Sustainability Standard Board's (ISSB) reporting standards or the European Sustainability Reporting Standards (ESRS) created as part of the Corporate Sustainability Reporting Directive (CSRD) in the EU. Asset managers are also encouraged to perform their own due diligence, especially when it comes to raw or estimated data. IOSCO has recommended this both in another November 2021 report<sup>8</sup> and in its good sustainable finance practices.

## Application and approach

**2.1** Each Principle in this Code of Conduct is underpinned by a series of actions, which provide a practical guide to the application and interpretation of the Principle.

**2.2** The Code of Conduct does not, and is not intended to, prescribe a singular approach as to how the Principles should be embedded within a provider's organisation. Rather, the Code of Conduct allows signatory organisations to meet the expectations set out in the Principles in a manner aligned to their own business model and structure.

**2.3** By signing up to this voluntary Code of Conduct, ESG ratings and data products providers agree to make available publicly, and to review at least annually (updating where appropriate), a statement explaining their approach to the implementation of the Code of Conduct ("**Annual Statement of Application**").

**2.4** In order to assist in determining the scope of application of the Code of Conduct, as explained further below, we offer definitions of ESG ratings/data products providers as well as ESG data products and ESG ratings/scores. Furthermore, the Code comments on certain areas of negative scope. As this is an evolving and innovative market, this Code of Conduct is intended to have broad application across the market of providers of ESG ratings and data products. The definitions and commentary on scope should, therefore, be read purposively, recognising the intentionally broad application that the Code is intended to have. This should also allow the Code to be applied by providers based in any jurisdiction as well as be used internationally by jurisdictions where no local Code or regulation is in place.

**2.5** The Code of Conduct is intended to enhance transparency of methodologies for ESG ratings and data products and improve standards generally across the market. In doing so, the Code should assist users of these products to better carry out their due diligence to understand the range of products on offer. The Code of Conduct is not, however, a substitute for such due diligence.

**2.6** Once an ESG ratings or data product provider has signed up to the Code of Conduct, this will be followed by an implementation period. At the end of this period, the Principles should be embedded within the provider's organisation. The implementation period for ESG ratings providers is six months and the implementation period for ESG data products providers is twelve months.

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<sup>8</sup> Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD688.pdf>

# Scope and definitions

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## Target Scope and Application

- 3.1** This is a voluntary Code of Conduct and as such it is open for any entity that so wishes (and considers this Code of Conduct relevant to its business or operations) to implement and adhere to the Principles. The intention in the development of this Code of Conduct is to ensure that it is sufficiently clear and flexible to have relevance in its application to the broad spectrum of ESG ratings or data products providers that exist in the global market.
- 3.2** Nevertheless, for clarity of terminology and to provide guidance as to the relevant market identified and considered during the development of the Code of Conduct, the following definitions and commentary on scope are provided.

## Terminology

- 3.3** Throughout this Code of Conduct, reference is made to the Principles and actions applying to “ESG ratings/data products providers”. For these purposes, we offer the following (intentionally broad) definitions:
- 3.4** “**ESG ratings/data products provider**” means an entity whose activities involve the provision of ESG data products and/or ESG ratings/scores.
- 3.5** “**ESG data product**” is a product provided, or marketed as providing either a specific Environmental, Social, or Governance focus or a holistic ESG focus, or a combined focus on a combination of E, S or G factors, in respect of one or more entities, financial instruments, products or companies’ ESG profile, characteristics, or exposure to ESG, climate-related or other environmental risks or impact on society and the environment. For the purposes of this definition, it is irrelevant whether or not the product is explicitly labelled as an “ESG data product”.
- 3.6** “**ESG rating/score**” is a product that is provided, or marketed as providing an opinion, score or other ranking issued using an established and defined ranking system, regarding the Environmental, Social and or Governance characteristics or risks in relation to one or more entities’, financial instruments’, or products or one or more companies’ ESG profile, characteristics, or exposure to ESG, climate-related or other environmental risks or impact on society and the environment. For the purposes of this definition, it is irrelevant whether or not the relevant product is explicitly labelled as an “ESG rating or ESG score”.
- 3.7** It is important to note that our definition of ESG rating/score is not intended to suggest that ESG ratings and ESG scores are the same product, or that the terms can or should be used interchangeably in all situations. For the purposes of this Code of Conduct, however, we do not consider that it is necessary to draw specific differences between the product types. ESG ratings/data products providers may feel, however, that the manner in which they implement aspects of this Code of Conduct across their business may vary depending on the product/business area, and to the extent that differences are drawn between ESG ratings and ESG scores, that there may be different styles of application between those product sets.

**3.8** Controversies alerts and second party opinions (SPOs)<sup>9</sup>: in developing this Code of Conduct, the decision was made that it should have broad application across ESG rating and data product providers and that, consistent with this principle, it would include entities that provide controversy alerts (also referred to as controversy reports or norm-based research) or SPO providers. As this is a voluntary Code, it is up to organisations that offer these products to decide whether and to what extent they intend to apply the Code Principles. In developing this Code, however, it is envisaged that it should apply to such products, albeit that the specific application of certain aspects of the Code may be different than that for other ESG ratings or data products. It is envisaged that signatories should explain their approach, and their justification for such approach, in their Annual Statement of Application (see paragraph 2.3).

**3.9** Where applying this Code of Conduct to controversies alerts or reports, ESG ratings or data products providers should have regard to the overarching aims of the Code as set out in paragraph 1.4 above. In particular, ESG ratings and data products providers should seek to ensure sufficient transparency concerning their products. Areas of particular relevance and focus could include: (i) the reliability of public data sources, and providing transparent information as to the hierarchy of such sources; (ii) applying a measure of materiality reflecting the overall weight and relevance of the controversy to the company; (iii) having regard to the length of time passed since the date of the original controversy and its continued relevance; and (iv) the level of responsibility that the named company can take for the controversy versus industry-wide issues.

## Negative Scope

**3.10** As this is a voluntary Code that is being designed to have broad application and relevance, there is an argument as to whether it is necessary to express specific exclusions from the Code of Conduct's application. While a valid observation, it may help guidance and interpretation to identify the categories of organisation that, while capable of falling within the ESG ratings/data products provider definition, were not the primary target of this Code of Conduct during its development. These types of organisations are as follows:

- (A) Credit Rating Agencies in respect of their offering of credit ratings (including those credit ratings that include consideration of ESG factors). Where Credit Rating Agency groups own entities that offer ESG rating/scores or ESG data products, those entities would fall within the intended scope;
- (B) entities who produce ESG ratings/scores or ESG data products that are used or consumed only within the same corporate group of affiliated companies and are therefore not provided or marketed to third parties; and
- (C) entities whose commercial activities involve ESG consulting services, but that do not involve the provision of any ESG rating/score or ESG data product.

**3.11** In addition, while the scope of application of the Code of Conduct has been created with regard to the broad spectrum of ESG rating, score and data products, there are limits to those products and services that have been broadly considered to be in scope. For example, the definitions are not intended to be so broad as to bring into scope proxy adviser services, investment research, or regulated financial benchmarks.

**3.12** We emphasise that the above is intended to provide guidance as to the target scope during the development process, and is not intended to dissuade organisations listed above from applying the Code of Conduct if they consider it to be relevant to their activities or business.

**3.13** As explained throughout the Code of Conduct, on a principle-by-principle basis, the Code of Conduct is intended to be interpreted and applied in a proportionate manner, having regard to the nature, scale and complexity of the activities or business.

<sup>9</sup> For SPOs, also see ICMA's guidance for external reviewers: <https://www.icmagroup.org/sustainable-finance/external-reviews/>



# Principles

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## 1. Principle on Good Governance

No.		
1.1	<b>Principle</b>	ESG ratings and data products providers should ensure appropriate governance arrangements are in place that enable them to promote and uphold the Principles and overall objectives of the Code of Conduct.
1.2	<b>Context</b>	<i>The purpose of this Principle is to ensure that ESG ratings and data products providers have appropriate governance and oversight arrangements in place necessary in connection with this Code of Conduct.</i>
1.3	<b>Actions</b>	ESG ratings and data products providers should have appropriate governance arrangements in place that:
1.4		(A) include a clear organisational structure with well-defined, transparent and consistent roles and responsibilities for personnel involved in the determination, publication, or oversight, as appropriate, of an ESG rating or of an ESG data product; and which
1.5		(B) enable them to follow the Principles set out in this Code of Conduct.
1.6	<b>Outcome</b>	<i>Appropriate governance arrangements ensure ESG ratings and data products providers are well-positioned to operationalise this Code of Conduct appropriately and ultimately enable appropriate management of conflicts of interest, ensure appropriate and transparent procedures, as well as support competent personnel and sufficient resources.</i>

## 2. Principle on Securing Quality (Systems and Controls)

No.		
2.1	<b>Principle</b>	ESG ratings and data products providers should adopt and implement written policies and procedures designed to help ensure the issuance of high quality ESG ratings and data products.
2.2	<b>Context</b>	<i>The purpose of this Principle is to ensure that ESG ratings and data products providers operate internal arrangements designed to ensure they can provide high quality ESG ratings and data products. Without appropriate policies and procedures being established, maintained and followed consistently, there is a risk that reliability and quality of the relevant product (ESG rating or data product) could be affected. It would also impact the ability of users to make an informed decision.</i>
2.3	<b>Actions</b>	These policies and procedures should be drafted taking into account the nature, scale and complexity of the ESG ratings and data products providers' respective businesses and should require that ESG ratings/ data products are based on:
2.4		(A) publicly disclosed data sources, where possible, and other information sources, where necessary;
2.5		(B) the adoption, implementation and provision of transparency around methodologies for their ESG ratings and data products that are defined, rigorous, systematic, applied continuously, in accordance with Principle 4, while maintaining a balance with respect to proprietary or confidential aspects of the methodologies; and
2.6		(C) a thorough analysis of relevant information consistent with the applicable methodologies available to the ESG ratings and data products providers at the time of determination.
2.7		Furthermore, having regard to the nature, scale and complexity of their respective businesses, ESG ratings and data products providers should also ensure:
2.8		(A) they monitor on an ongoing basis and regularly update, as appropriate, their ESG ratings and data products, except where specifically disclosed that the rating is a point in time rating;
2.9		(B) they regularly review the relevant methodologies and sufficiently communicate changes made to the methodologies as well as potential impacts of these changes to the ESG ratings and data products;
2.10		(C) they maintain internal records to support their ESG ratings and data products;
2.11		(D) they have sufficient resources (personnel and technological capabilities) to consistently apply the relevant methodologies to determine high quality ESG ratings and data products, to seek out information they need in order to make an assessment, analyse all the information relevant to their decision-making processes, and conduct quality control on their processes and production of ESG ratings and data products; and
2.12		(E) the personnel involved in the determination, publication or oversight, as appropriate, of ESG ratings and data products are professional, competent, and of high integrity.
2.13		Finally, ESG ratings and data products providers could consider providing ESG ratings and data products to clients in a machine-readable format.
2.14		<b>Outcome</b>

### 3. Principle on Conflicts of Interest

No.		
3.1	<b>Principle</b>	ESG ratings and data products providers should adopt and implement written policies and procedures designed to help ensure their decisions are independent, free from political or economic interference, and appropriately address actual or potential conflicts of interest that may arise from, among other things, the ESG ratings and data products providers' organisational structure, business or financial activities, or the financial interests of the ESG ratings and data products providers and their officers and employees.
3.2		ESG ratings and data products providers should identify, avoid or appropriately manage, mitigate and disclose actual or potential conflicts of interest that may compromise the independence and integrity of the ESG ratings and data products providers' operations.
3.3	<b>Context</b>	<i>The purpose of this Principle is to ensure that ESG ratings and data products providers operate internal arrangements designed to avoid and, if identified, to address any potential conflicts of interest appropriately. Without appropriate policies and procedures being established, there is a risk that the independence, integrity, reliability and credibility of the ESG ratings or data products providers' operations could be undermined.</i>
3.4	<b>Actions</b>	ESG ratings and data products providers should:
3.5		(A) adopt written internal policies and procedures and mechanisms designed to (1) identify, and (2) eliminate, or manage, mitigate and disclose, as appropriate, any actual or potential conflicts of interest related to their ESG ratings or data products that may influence the opinions and analyses ESG ratings and data products providers make or the judgment and analyses of the individuals they employ who have an influence on their ESG ratings or data products decisions; and
3.6		(B) disclose such conflict avoidance and management measures.
3.7		ESG ratings and data products providers should take steps to help ensure that any existing or potential business relationship between them (or their affiliates) and any entity or any other party for which they provide ESG ratings or data products would not affect the integrity of the ESG ratings and data products being offered to those entities or other parties. These steps could include (but are not limited to) the following measures in respect of appropriate staff:
3.8		(A) putting in place measures to help ensure such staff refrain from any securities or derivatives trading presenting inherent conflicts of interest with the ESG ratings and data products;
3.9		(B) structuring reporting lines for such staff and their compensation arrangements to eliminate or appropriately manage actual and potential conflicts of interest related to their ESG ratings and data products;
3.10		(C) not compensating or evaluating such staff on the basis of the amount of revenue that an ESG rating and data products provider derives from an entity that staff provides ESG ratings and data products for, or with which staff regularly interacts regarding such ESG ratings and data products; and
3.11		(D) where consistent with confidentiality, contractual and other business, legal and regulatory requirements, disclosing in respect of such staff the general nature of the compensation arrangement or any other business or financial relationships that exist with an entity for which the ESG ratings and data products provider provides ESG ratings or data products.
3.12		<b>Outcome</b>

## 4. Principle on Transparency

No.		
4.1	<b>Principle</b>	ESG ratings and data products providers should make adequate levels of public disclosure and transparency a priority for their ESG ratings and data products, including their methodologies and processes to enable the users of the product to understand what the product is and how it is produced, including any potential conflicts of interest and while maintaining a balance with respect to proprietary or confidential information, data and methodologies.
4.2	<b>Context</b>	<i>Ensuring transparency of methodologies and processes that underpin ESG ratings and data products should enable all users and stakeholders to have a reasonable understanding of how each provider defines and compiles their respective ESG ratings and data products. Improved transparency on methodologies and processes would enhance overall trust in such ratings and data products.</i>
4.3	<b>Actions</b>	ESG ratings and data products providers should, where applicable:
4.4		(A) make public disclosure and transparency a priority for their ESG ratings and data products offerings, subject to commercial sensitivity considerations;
4.5		(B) clearly describe their ESG ratings and data products to enable the users to understand the ESG rating's or ESG data product's intended purpose; and
4.6		(C) publish sufficient information about the methodologies underlying their ESG ratings and data products and how they ensure their consistent implementation, to enable the users of these products to understand how their outputs were determined.
4.7		ESG ratings providers should, where applicable, publish information that is relevant to understanding their methodologies, subject to any proprietary or confidentiality considerations. This information may include, but is not limited to:
4.8		(A) the measurement objective of the ESG rating;
4.9		(B) the criteria used to assess the entity or company;
4.10		(C) the KPIs used to assess the entity against each criterion;
4.11		(D) the relative weighting of these criteria to that assessment;
4.12		(E) the scope of business activities and group entities included in the assessment;
4.13		(F) the principal sources of qualitative and quantitative information used in the assessment, including the use of industry averages, estimations or other methodologies when actual data is not available, as well as information on how the absence of information was treated;
4.14		(G) the time horizon of the assessment;
4.15		(H) the meaning of each assessment category; and
4.16		(I) a regular evaluation of their methodologies against the outputs which they have been used to produce.
4.17	<b>Outcome</b>	<i>The purpose of this Principle is to ensure that ESG ratings and data products providers are transparent about the methodologies and processes that underpin their ESG ratings and data products, while maintaining a balance with respect to proprietary or confidential information, data and methodologies. In order to promote market-wide confidence in ESG ratings and data products, all users and stakeholders need to have a reasonable understanding of how each provider defines and compiles their respective ESG ratings and data products. Improved transparency on methodologies and processes would enhance overall trust in such ratings and data products.</i>

## 5. Principle on Confidentiality (Systems and Controls)

No.		
5.1	<b>Principle</b>	ESG ratings and data products providers should adopt and implement written policies and procedures designed to address and protect all non-public information received from or communicated to them by any entity, or its agents, related to their ESG ratings and data products, in a manner appropriate in the circumstances.
5.2	<b>Context</b>	<i>The purpose of this Principle is to ensure that ESG ratings and data products providers operate internal arrangements designed to ensure they can manage and protect non-public information appropriately. Without appropriate policies and procedures being established, there is a risk that reliability and credibility of the ESG ratings or data products providers could be undermined.</i>
5.3	<b>Actions</b>	ESG ratings and data products providers should:
5.4		(A) adopt and implement written policies and procedures and mechanisms related to their ESG ratings and data products designed to address and protect the non-public nature of information shared with them by entities under the terms of a confidentiality agreement or otherwise under a mutual understanding that the information is shared confidentially;
5.5		(B) adopt and implement written policies and procedures designed to address the use of non-public information only for purposes related to their ESG ratings and data products or otherwise in accordance with their confidentiality arrangements with the entity; and
5.6		(C) include information on data confidentiality management and on the protection of non-public information to the extent terms of engagement are published.
5.7	<b>Outcome</b>	<i>Through the establishment, maintenance and adherence to appropriate policies and procedures concerning ESG ratings or data products processes, the risk of infringing on the non-public nature of information that may underpin the issuance of ESG ratings or data products is mitigated.</i>

## 6. Principle on Engagement (Systems and Controls)

No.		
6.1	<b>Principle</b>	ESG ratings and data products providers should regularly consider whether their information gathering processes with entities covered by their products leads to efficient information procurement for both the providers and these entities. Where potential improvements to information gathering processes are identified, ESG ratings and data products providers should consider what measures can be taken to implement them.
6.2		Where feasible and appropriate, ESG ratings and data products providers should respond to and address issues flagged by entities covered by their ESG ratings and data products while maintaining the independence and integrity of these products.
6.3	<b>Context</b>	<i>The purpose of this Principle is to ensure that ESG ratings and data products providers operate internal arrangements that provide forward visibility to covered entities as to what to expect from their assessment processes. Without appropriate policies and procedures being established, there is a risk that procurement of information that underpins ESG ratings or data products providers could be inefficient and lack credibility.</i>
6.4	<b>Actions</b>	Where they collect information from covered entities on a bilateral basis, ESG ratings and data products providers should:
6.5		(A) communicate sufficiently in advance by when they expect to request this information regarding their ESG ratings and data products; and
6.6		(B) include in their requests, pre-inputted information either from publicly available sources or from the covered entities' previous submissions, where possible, for the covered entities' review or confirmation.
6.7		ESG ratings and data products providers should:
6.8		(A) provide a clear and consistent contact point with whom the covered entity can interact to address any queries relating to the assessment provided by the ESG ratings and data products provider;
6.9		(B) where feasible and appropriate, inform covered entities: (i) that they are in the process of being assessed; and (ii) of the principal categories of data on which an ESG rating is based before the publication of the ESG rating;
6.10		(C) allow the covered entity to draw attention to any factual errors or omissions in the ESG rating or ESG data product, including the data and information underlying the ESG rating or ESG data product; and
6.11		(D) publish terms of engagement describing how the ESG ratings and data product providers will typically engage with their covered entities, including when information is likely to be requested and the opportunities available (if any) to the covered entity for review.
6.12	<b>Outcome</b>	<i>Through the establishment, maintenance and adherence to appropriate policies and procedures concerning ESG ratings or data products processes, the risk of inefficiencies or of relying upon incomplete or inaccurate information in procuring the information that may underpin the issuance of ESG ratings or data products are mitigated.</i>

# Annex 1

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## Consultation Questions

In addition to feedback on the draft Code of Conduct, we would welcome responses to the following consultation questions.

### Interoperability

1. How would the proposed scope of this Code of Conduct interact with initiatives related to ESG ratings and data products in other jurisdictions, such as existing or proposals for regulation or Codes of Conduct? Are there any particular issues that you think might limit its international interoperability with other similar initiatives?
2. Taking into account the Code of Conduct's degree of alignment with IOSCO recommendations and the consideration it gives to other international approaches (such as Japan's and Singapore's), do you think the Code of Conduct could and/or should serve as a global baseline for ESG ratings and data product providers?

### Differentiation of ESG Ratings and Data products

3. Noting the distinction drawn between ESG ratings and data products, is the Code of Conduct sufficiently clear on how its Principles specifically apply to ratings products and/or data products?

### Forward looking information

4. Some stakeholders have encouraged there to be an explicit statement as to whether a methodology incorporates forward looking information, such as transition plans. We would welcome views on the proposal to include an action encouraging such disclosure.

# Annex 2

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## ESG Data and Ratings Code of Conduct Working Group – Membership

### STEERING COMMITTEE

<b>Name</b>	<b>Position, Organisation</b>
Angela Brown	Global Head of ESG Products, <b>Moody's Analytics</b>
Rob Marshall	Head of Sustainable Investing, <b>M&amp;G</b>
Nick Bonsall	Partner Financial Regulation Group, <b>Slaughter and May</b>
David Harris	Head of Sustainable Finance Strategic Initiatives, <b>London Stock Exchange Group</b> (LSEG)

### WORKING GROUP MEMBERS

AFME	Luxembourg Stock Exchange
Anglo-American	MSCI
AXA Investment Managers	Phoenix Group
Barclays	RepRisk
BlackRock	Sustainalytics
Bloomberg	State Street Global Advisors
Financial Markets Standards Board (FMSB)	S&P Global
The IA	UK Finance
Imperial College	UN PRI
Intercontinental Exchange (ICE)	USS Investment Management

#### **UK Observers**

Bank of England  
HM Treasury  
Financial Conduct Authority  
Financial Reporting Council

#### **International Observers**

Include Monetary Authority of Singapore (MAS), the Japanese Financial Services Agency (JFSA) and the Ontario Securities Commission (OSC)

### SECRETARIAT

#### **ICMA**

Simone Utermarck, Director, Sustainable Finance, ICMA  
Stanislav Egorov, Associate, Sustainable Finance, ICMA

#### **IRSG**

Corinna Williams, Senior Regulatory Policy Advisor, City of London Corporation  
Madison McSweeney, ESG Policy Advisor, City of London Corporation

Additional support from Lucy Scaramuzza, Associate, Slaughter and May



# Annex 3

## Mapping of IOSCO recommendations against drafting of voluntary Code of Conduct for ESG ratings and data products providers

### Table of Contents

Good Governance	14
IOSCO recommendation 1	15
IOSCO recommendation 2 (Securing quality – Systems and Controls)	16
IOSCO recommendations 3 and 4 (Conflicts of Interest)	18
IOSCO recommendation 5 (Transparency)	19
IOSCO recommendation 6 (Confidentiality – Systems and Controls)	21
IOSCO recommendation 7	21
IOSCO recommendations 8 and 9 (Engagement – Systems and Controls)	22
IOSCO recommendation 10	23

The table below maps the [IOSCO recommendations](#) (in the left column) against the Principles in the voluntary Code of Conduct for ESG ratings and data products providers (in the right column).

For guidance, please note that drafting in italics is used to highlight the differences between the IOSCO and DRWG versions.

No.	Text of IOSCO recommendation	Draft Code of Conduct Principles
<b>Good Governance</b>		
1.	N/A	<p>ESG ratings and data products providers should ensure appropriate governance arrangements are in place that enable them to promote and uphold the Principles and overall objectives of the Code of Conduct.</p> <p>ESG ratings and data products providers should have appropriate governance arrangements in place that:</p> <p>(A) include a clear organisational structure with well-defined, transparent and consistent roles and responsibilities for personnel involved in the determination, publication, or oversight, as appropriate, of an ESG rating or of an ESG data product; and which</p> <p>(B) enable them to follow the Principles set out in this Code of Conduct.</p> <p><b>Context:</b> The purpose of this Principle is to ensure that ESG ratings and data products providers have appropriate governance and oversight arrangements in place necessary in connection with this Code of Conduct.</p>

No.	Text of IOSCO recommendation	Draft Code of Conduct Principles
		<p><b>Outcome:</b> Appropriate governance arrangements ensure ESG ratings and data products providers are well-positioned to operationalise this Code of Conduct appropriately and ultimately enable appropriate management of conflicts of interest, ensure appropriate and transparent procedures, as well as support competent personnel and sufficient resources.</p>
<b>IOSCO recommendation 1</b>		
2.	<p>Regulators could consider focusing more attention on the use of ESG ratings and data products and ESG ratings and data products providers that may be subject to their jurisdiction.</p> <p>Regulators could examine their existing regulatory regimes and where applicable consider whether there is sufficient oversight of ESG ratings and data products providers.</p> <p>Regulators could support voluntary industry-led development of standardised definitions for the terminology used and referred to by ESG rating and data products providers.</p> <p>Where regulators have authority over ESG ratings and data products providers, they could consider:</p> <p>Requiring the provider to identify, disclose and, to the extent possible, mitigate potential conflicts of interest that may arise between ESG ratings and data product offerings and other relationships with the covered entities such as provision of third party opinions for green finance products and ESG consulting services.</p> <p>Whether the corporate governance organisational and operational structures of the provider are sufficient to identify, manage and mitigate any potential conflicts of interest.</p> <p>Whether the data and information sources that the provider relies on are publicly disclosed, including the use of industry averages, estimations or other methodologies when actual data is not available or not publicly disclosed.</p> <p>Whether the provider’s methodologies are publicly disclosed, including whether and how the methodologies are defining the individual components Environmental, Social, Governance of “ESG”, including the specific issues being assessed, the KPIs used and measurement methodologies underlying each KPI.</p> <p>Whether the providers’ ESG ratings and data products are issued in a manner that is internally consistent with the relevant provider’s in-house methodologies.</p> <p>Whether the underlying processes and methodologies of the ESG ratings and data products are subject to the provider’s written policies and procedures and/or internal controls designed to help ensure the processes and methodologies are rigorous, systematic, and applied consistently.</p>	<p>N/A- this has not been incorporated into the DRWG owing to its focus on regulators and not on providers.</p>

No.	Text of IOSCO recommendation	Draft Code of Conduct Principles
	<p>Whether to provide facilities for the reporting of complaints or misconduct relating, but not limited to, the independence, transparency or integrity of ESG rating or data products.</p> <p>Regulators, could consider whether there are opportunities to encourage industry participants to develop and follow voluntary common industry standards or Codes of Conduct. IOSCO could also consider what role it can play in supporting the development of such voluntary standards or Codes, regarding:</p> <p>The identification, management and mitigation of potential conflicts of interest for ESG ratings and data products providers;</p> <p>The integrity, transparency and independence of ESG ratings and data product methodologies; and/or the disclosure of ESG rating and data products terminology to help improve understanding of these terms in the markets.</p>	
<b>IOSCO recommendation 2 (Securing quality - Systems and Controls)</b>		
3.	<p>ESG ratings and data products providers could consider adopting and implementing written procedures designed to help ensure the issuance of high quality ESG ratings and data products based on publicly disclosed data sources where possible and other information sources where necessary, using transparent and defined methodologies.</p>	<p>ESG ratings and data products providers <i>should adopt and implement</i> written <i>policies and</i> procedures designed to help ensure the issuance of high quality ESG ratings and data products.</p> <p><b>Context:</b> The purpose of this Principle is to ensure that ESG ratings and data products providers operate internal arrangements designed to ensure they can provide high quality ESG ratings and data products. Without appropriate policies and procedures being established, maintained and followed consistently, there is a risk that reliability and quality of the relevant product (ESG rating or data product) could be affected. It would also impact the ability of users to make an informed decision.</p> <p><b>Outcome:</b> Through the establishment, maintenance and adherence to appropriate policies and procedures concerning ESG rating or data products processes, the risk of adverse impacts to the consistency or quality of ESG ratings or data products is mitigated and the ability of users to make informed decisions will be improved.</p>
4.	<p>ESG ratings and data products providers could consider:</p>	<p><i>These policies and procedures should be drafted taking into account the nature, scale and complexity of the ESG ratings' and data products providers' respective businesses and should require that ESG ratings/data products are based on:</i></p>
5.		<p>(A) <i>publicly disclosed data sources, where possible, and other information sources, where necessary;</i></p>
6.	<p>Adopting, implementing and providing transparency around methodologies for their ESG ratings and data products that are rigorous, systematic, applied continuously while maintaining a balance with respect to proprietary or confidential aspects of the methodologies.</p>	<p>(B) <i>the adoption, implementation and provision of transparency around methodologies for their ESG ratings and data products that are defined, rigorous, systematic, applied continuously, in accordance with Principle 4, while maintaining a balance with respect to proprietary or confidential aspects of the methodologies; and</i></p>

No.	Text of IOSCO recommendation	Draft Code of Conduct Principles
7.	Adopting and implementing written policies and procedures designed to help ensure that the ESG ratings and data products they issue are based on a thorough analysis of all relevant information available to them.	(C) a thorough analysis of relevant information <i>consistent with the applicable methodologies</i> available to the ESG ratings and data products providers at the time of determination.
8.		<i>Furthermore, having regard to the nature, scale and complexity of their respective businesses, ESG ratings and data products providers should also ensure:</i>
9.	For ESG ratings, publishing on a regular basis an evaluation of their methodologies against the outputs which they have been used to produce.	(See proposed codification of IOSCO recommendation 5, row 42)
10.	Providing transparency, where reasonably possible, around the sources of data used in determining their ESG ratings and data products, including the use of any industry averages, estimations or other methodologies when actual data is not available. This may include transparency around whether the data used is up to date, and the time period that data is relevant to as well as whether the data is publicly sourced or proprietary in nature, including through approximations.	(See proposed codification of IOSCO recommendation 5, rows 39 and 40)
11.	Monitoring on an ongoing basis, and regularly updating, their ESG ratings and data products, except where specifically disclosed that the rating is a point in time rating.	(A) <i>they monitor</i> on an ongoing basis and regularly update, as appropriate, their ESG ratings and data products, except where specifically disclosed that the rating is a point in time rating;
12.	Subjecting these methodologies to regular review, with sufficient communication regarding changes made to the methodologies as well as potential impacts of these changes to the ESG ratings and data products	(B) <i>they regularly review the relevant methodologies and sufficiently communicate changes</i> made to the methodologies as well as potential impacts of these changes to the ESG ratings and data products;
13.	Maintaining internal records to support their ESG ratings and data products.	(C) <i>they maintain</i> internal records to support their ESG ratings and data products;
14.	Sufficient resources to carry out high-quality ESG-related assessments, including sufficient personnel and technological capabilities, to seek out information they need in order to make an assessment, analyse all the information relevant to their decision-making processes, and provide quality assurance.	(D) <i>they have sufficient resources (personnel and technological capabilities) to consistently apply the relevant methodologies to determine high quality ESG rating and data products, to seek out information they need in order to make an assessment, analyse all the information relevant to their decision-making processes, and conduct quality control on their processes and production of ESG ratings and data products; and</i>
15.	How to ensure personnel involved in the deliberation of ESG ratings and data products are professional, competent, and of high integrity.	(E) <i>the personnel involved in the determination, publication or oversight, as appropriate, of ESG ratings and data products are professional, competent, and of high integrity.</i>
16.	Offering ESG ratings and data products to clients in a machine-readable format.	<i>Finally, ESG ratings and data products providers could consider providing ESG ratings and data products to clients in a machine-readable format.</i>

No.	Text of IOSCO recommendation	Draft Code of Conduct Principles
<b>IOSCO recommendations 3 and 4 (Conflicts of Interest)</b>		
17.	ESG ratings and data products providers could consider adopting and implementing written policies and procedures designed to help ensure their decisions are independent, free from political or economic interference, and appropriately address potential conflicts of interest that may arise from, among other things, the ESG ratings and data products providers' organizational structure, business or financial activities, or the financial interests of the ESG ratings and ESG data products providers and their officers and employees.	ESG ratings and data products providers <i>should</i> adopt and implement written policies and procedures designed to help ensure their decisions are independent, free from political or economic interference, and appropriately address <i>actual or potential</i> conflicts of interest that may arise from, among other things, the ESG ratings and data products providers' organizational structure, business or financial activities, or the financial interests of the ESG ratings and data products providers and their officers and employees.
18.	ESG ratings and data products providers could consider identifying, avoiding or appropriately managing, mitigating and disclosing potential conflicts of interest that may compromise the independence and objectivity of the ESG rating and ESG data products provider's operations.	ESG ratings and data products providers <i>should</i> identify, avoid or appropriately manage, mitigate and disclose <i>actual or potential</i> conflicts of interest that may compromise the independence and <i>integrity</i> of the ESG ratings and data products provider's operations:
		<b>Context:</b> The purpose of this Principle is to ensure that ESG ratings and data products providers operate internal arrangements designed to avoid and, if identified, to address any potential conflicts of interest appropriately. Without appropriate policies and procedures being established, there is a risk that the independence, integrity, reliability and credibility of the ESG ratings or data products providers' operations could be undermined.
		<b>Outcome:</b> Through the establishment, maintenance and adherence to appropriate policies and procedures that address <i>actual or potential</i> conflicts of interest, the risk of undermining the independence, integrity, reliability and credibility that informs the issuance of an ESG rating or data product is mitigated.
19.	ESG ratings and data products providers could consider:	ESG ratings and data products providers <i>should</i> :
20.	Adopting written internal policies and procedures and mechanisms designed to (1) identify, and (2) eliminate, or manage, mitigate and disclose, as appropriate, any actual or potential conflicts of interest related to their ESG ratings or data products that may influence the opinions and analyses ESG ratings and data products providers make or the judgment and analyses of the individuals they employ who have an influence on their ESG ratings or data product decisions.	(A) adopt written internal policies and procedures and mechanisms designed to (1) identify, and (2) eliminate, or manage, mitigate and disclose, as appropriate, any actual or potential conflicts of interest related to their ESG ratings or data products that may influence the opinions and analyses ESG ratings and data products providers make or the judgment and analyses of the individuals they employ who have an influence on their ESG ratings or data products decisions; and
21.	Disclosing such conflict avoidance and management measures.	(B) disclose such conflict avoidance and management measures.
22.	Taking steps to help ensure the ESG ratings and data products would not be affected by the existence of or potential for a business relationship between the ESG ratings and data products providers (or their affiliates) and any entity or any other party for which it provides ESG ratings or data products	<i>ESG ratings and data products providers should take steps to help ensure that any existing or potential business relationship between them (or their affiliates) and any entity or any other party for which they provide ESG ratings or data products would not affect the integrity of the ESG ratings and data products being offered to those entities or other parties. These steps could include (but are not limited to) the following measures in respect of appropriate staff:</i>

No.	Text of IOSCO recommendation	Draft Code of Conduct Principles
23.	Putting in place measures to help ensure their staff members refrain from any securities or derivatives trading presenting inherent conflicts of interest with the ESG ratings and data products.	(A) putting in place measures to help ensure <i>such</i> staff refrain from any securities or derivatives trading presenting inherent conflicts of interest with the ESG ratings and data products;
24.	Structuring reporting lines for their staff and their compensation arrangements to eliminate or appropriately manage actual and potential conflicts of interest related to their ESG ratings and data products.	(B) structuring reporting lines for <i>such</i> staff and their compensation arrangements to eliminate or appropriately manage actual and potential conflicts of interest related to their ESG ratings and data products;
25.	Not compensating or evaluating staff on the basis of the amount of revenue that an ESG rating and data products provider derives from an entity that staff provides ESG ratings and data products for, or with which staff regularly interacts regarding such ESG ratings and data products.	(C) not compensating or evaluating <i>such</i> staff on the basis of the amount of revenue that an ESG rating and data products provider derives from an entity that staff provides ESG ratings and data products for, or with which staff regularly interacts regarding such ESG ratings and data products; and
26.	Where consistent with confidentiality, contractual and other business, legal and regulatory requirements, disclosing the nature of the compensation arrangement or any other business or financial relationships that exist with an entity for which the ESG ratings and data products provider provides ESG ratings or data products.	(D) where consistent with confidentiality, contractual and other business, legal and regulatory requirements, disclosing <i>in respect of such staff</i> the <i>general</i> nature of the compensation arrangement or any other business or financial relationships that exist with an entity for which the ESG ratings and data products provider provides ESG ratings or data products.
<b>IOSCO recommendation 5 (Transparency)</b>		
27.	ESG ratings and data products providers could consider making adequate levels of public disclosure and transparency a priority for their ESG ratings and data products, including their methodologies and processes to enable the users of the product to understand what the product is and how it is produced, including any potential conflicts of interest and while maintaining a balance with respect to proprietary or confidential information, data and methodologies.	<p>ESG ratings and data products providers <i>should</i> make adequate levels of public disclosure and transparency a priority for their ESG ratings and data products, including their methodologies and processes to enable the users of the product to understand what the product is and how it is produced, including any potential conflicts of interest and while maintaining a balance with respect to proprietary or confidential information, data and methodologies.</p> <p><b>Context:</b> Ensuring transparency of methodologies and processes that underpin ESG ratings and data products should enable all users and stakeholders to have a reasonable understanding of how each provider defines and compiles their respective ESG ratings and data products. Improved transparency on methodologies and processes would enhance overall trust in such ratings and data products.</p> <p><b>Outcome:</b> The purpose of this Principle is to ensure that ESG ratings and data products providers are transparent about the methodologies and processes that underpin their ESG ratings and data products, while maintaining a balance with respect to proprietary or confidential information, data and methodologies. In order to promote market-wide confidence in ESG ratings and data products, all users and stakeholders need to have a reasonable understanding of how each provider defines and compiles their respective ESG ratings and data products. Improved transparency on methodologies and processes would enhance overall trust in such ratings and data products.</p>
28.	ESG ratings and data products providers could consider:	ESG ratings and data products providers <i>should, where applicable:</i>

No.	Text of IOSCO recommendation	Draft Code of Conduct Principles
29.	Making public disclosure and transparency a priority for their ESG ratings and data product offerings, subject to commercial sensitivity considerations.	(A) make public disclosure and transparency a priority for their ESG ratings and data products offerings, subject to commercial sensitivity considerations;
30.	Clearly labeling their ESG ratings and data products to enable the user to understand the ESG rating's or ESG data product's intended purpose including its measurement objective.	(B) clearly <i>describe</i> their ESG ratings and data products to enable the user to understand the ESG rating's or ESG data product's intended purpose; and
31.	Publicly disclosing the data and information sources they rely on in offering ESG ratings and data products, including the use of industry averages, estimations or other methodologies when actual data is not available.	(See proposed codification of IOSCO recommendation 5, row 41)
32.	Publishing sufficient information about the procedures and methodologies underlying their ESG ratings and data products to enable the users of these products to understand how their outputs were determined.	(C) publish sufficient information about the methodologies underlying their ESG ratings and data products <i>and how they ensure their consistent implementation</i> to enable the users of these products to understand how their outputs were determined.
33.	Information regarding methodologies that ESG ratings and data products providers could consider publishing include, but is not limited to:	ESG ratings and data products providers <i>should, where applicable, publish information that is relevant to understanding their methodologies, subject to any proprietary or confidentiality considerations. This information may include, but is not limited to:</i>
34.	The measurement objective of the ESG rating or data product;	(A) the measurement objective of the ESG rating;
35.	The criteria used to assess the entity or company;	(B) the criteria used to assess the entity or company;
36.	The KPIs used to assess the entity against each criterion.	(C) the KPIs used to assess the entity against each criterion;
37.	The relative weighting of these criteria to that assessment;	(D) the relative weighting of these criteria to that assessment;
38.	The scope of business activities and group entities included in the assessment;	(E) the scope of business activities and group entities included in the assessment;
39.	The principal sources of qualitative and quantitative information used in the assessment as well as information on how the absence of information was treated;	(F) the principal sources of qualitative and quantitative information used in the assessment, <i>including the use of industry averages, estimations or other methodologies when actual data is not available</i> , as well as information on how the absence of information was treated;
40.	The time horizon of the assessment; and	(G) the time horizon of the assessment;
41.	The meaning of each assessment category (where applicable).	(H) the meaning of each assessment category; and
42.		(I) <i>a regular evaluation of their methodologies against the outputs which they have been used to produce.</i>

No.	Text of IOSCO recommendation	Draft Code of Conduct Principles
<b>IOSCO recommendation 6 (Confidentiality – Systems and Controls)</b>		
43.	ESG ratings and data products providers could consider adopting and implementing written policies and procedures designed to address and protect all non-public information received from or communicated to them by any entity, or its agents, related to their ESG ratings and data products, in a manner appropriate in the circumstances.	<p>ESG ratings and data products providers <i>should</i> adopt and implement written policies and procedures designed to address and protect all non-public information received from or communicated to them by any entity, or its agents, related to their ESG ratings and data products, in a manner appropriate in the circumstances.</p> <p><b>Context:</b> The purpose of this Principle is to ensure that ESG ratings and data products providers operate internal arrangements designed to ensure they can manage and protect non-public information appropriately. Without appropriate policies and procedures being established, there is a risk that reliability and credibility of the ESG ratings or data products providers could be undermined.</p> <p><b>Outcome:</b> Through the establishment, maintenance and adherence to appropriate policies and procedures concerning ESG ratings or data products processes, the risk of infringing on the non-public nature of information that may underpin the issuance of ESG ratings or data products is mitigated.</p>
44.	ESG ratings and data products providers could consider:	ESG ratings and data products providers <i>should</i> :
45.	Adopting and implementing written policies and procedures and mechanisms related to their ESG ratings and data products designed to address and protect the non-public nature of information shared with them by entities under the terms of a confidentiality agreement or otherwise under a mutual understanding that the information is shared confidentially.	(A) adopt and implement written policies and procedures and mechanisms related to their ESG ratings and data products designed to address and protect the non-public nature of information shared with them by entities under the terms of a confidentiality agreement or otherwise under a mutual understanding that the information is shared confidentially;
46.	Adopting and implementing written policies and procedures designed to address the use of non-public information only for purposes related to their ESG ratings and data products or otherwise in accordance with their confidentiality arrangements with the entity.	(B) adopt and implement written policies and procedures designed to address the use of non-public information only for purposes related to their ESG ratings and data products or otherwise in accordance with their confidentiality arrangements with the entity; and
47.	Including information on data confidentiality management and on the protection of non-public information to the extent terms of engagement are published.	(C) include information on data confidentiality management and on the protection of non-public information to the extent terms of engagement are published.
<b>IOSCO recommendation 7</b>		
48.	Market participants could consider conducting due diligence, or gathering and reviewing information on the ESG ratings and data products that they use in their internal processes. This due diligence or information gathering and review could include an understanding of what is being rated or assessed by the product, how it is being rated or assessed and, limitations and the purposes for which the product is being used.	N/A as these measures apply to the wider market and not ESG ratings and data products providers.



No.	Text of IOSCO recommendation	Draft Code of Conduct Principles
49.	Market participants could consider evaluating the published methodologies of any ESG ratings or data products that they refer to in their internal processes. This evaluation could cover:	
50.	The sources of information used in the product, the timeliness of this information, whether any gaps in information are filled using estimates, and if so, the methods used for arriving at these estimates;	
51.	An evaluation of the criteria utilised in the ESG assessment process, including if they are science-based, quantitative, verifiable, and aligned with existing standards and taxonomies, the relative weighting of these criteria in the process, the extent of qualitative judgement and whether the covered entity was involved in the assessment process; and	
52.	A determination as to the internal processes of the financial market participant for which the product is suitable.	
<b>IOSCO recommendations 8 and 9 (Engagement – Systems and Controls)</b>		
53.	ESG ratings and data products providers could consider improving information gathering processes with entities covered by their products in a manner that leads to more efficient information procurement for both the providers and these entities.	ESG ratings and data products providers <i>should regularly consider whether their</i> information gathering processes with entities covered by their products leads to efficient information procurement for both the providers and these entities. <i>Where potential improvements to information gathering processes are identified, ESG ratings and data products providers should consider what measures can be taken to implement them.</i>
54.	Where feasible and appropriate, ESG ratings and data products providers could consider responding to and addressing issues flagged by entities covered by their ESG ratings and data products while maintaining the objectivity of these products.	Where feasible and appropriate, ESG ratings and data products providers <i>should</i> respond to and address issues flagged by entities covered by their ESG ratings and data products while maintaining the <i>independence and integrity</i> of these products.
		<p><b>Context:</b> The purpose of this Principle is to ensure that ESG ratings and data products providers operate internal arrangements that provide forward visibility to covered entities as to what to expect from their assessment processes. Without appropriate policies and procedures being established, there is a risk that procurement of information that underpins ESG ratings or data products providers could be inefficient and lack credibility.</p> <p><b>Outcome:</b> Through the establishment, maintenance and adherence to appropriate policies and procedures concerning ESG ratings or data products processes, the risk of inefficiencies or of relying upon incomplete or inaccurate information in procuring the information that may underpin the issuance of ESG ratings or data products are mitigated.</p>
55.	Where they collect information from covered entities on a bilateral basis, ESG ratings and data products providers could consider.	Where they collect information from covered entities on a bilateral basis, ESG ratings and data products providers <i>should</i> .

No.	Text of IOSCO recommendation	Draft Code of Conduct Principles
56.	Communicating sufficiently in advance when they expect to request this information regarding their ESG ratings and data products.	(A) communicate sufficiently in advance <i>by</i> when they expect to request this information regarding their ESG ratings and data products; <i>and</i>
57.	Including in their requests, pre-inputted information either from publicly available sources or from the covered entities previous submissions, where possible, for the covered entities' review or confirmation.	(B) include in their requests, pre-inputted information either from publicly available sources or from the covered entities previous submissions, where possible, for the covered entities' review or confirmation.
58.	ESG ratings and data products providers could consider.	ESG ratings and data products providers <i>should</i> :
59.	Providing a clear and consistent contact point with whom the covered entity can interact to address any queries relating to the assessment provided by the ESG ratings and data products provider.	(A) provide a clear and consistent contact point with whom the covered entity can interact to address any queries relating to the assessment provided by the ESG ratings and data products provider;
60.	Informing covered entities of the principal grounds on which an ESG rating or ESG data product is based before the publication of the ESG rating or data product.	(B) <i>where feasible and appropriate</i> , informing covered entities: (i) <i>that they are in the process of being assessed</i> ; and (ii) <i>of the principal categories of data on which an ESG rating is based before the publication of the ESG rating</i> ;
61.	Allowing the covered entity time to draw attention to any factual errors in the product, including the data and information underlying the product.	(C) allow the covered entity to draw attention to any factual errors <i>or omissions</i> in the <i>ESG rating or ESG data product</i> , including the data and information underlying the <i>ESG rating or ESG data product</i> ; <i>and</i>
62.	Publishing terms of engagement describing how and when the ESG rating and data providers will typically engage with their covered entities, including when information is likely to be requested and the opportunities available to the covered entity for review.	(D) publish terms of engagement describing how the ESG rating and data providers will typically engage with their covered entities, including when information is likely to be requested and the opportunities available <i>(if any)</i> to the covered entity for review.
<b>IOSCO recommendation 10</b>		
63.	<p>Entities subject to assessment by ESG ratings and data products providers could consider streamlining their disclosure processes for sustainability related information to the extent possible, bearing in mind jurisdictions' applicable regulatory and other legal requirements.</p> <p>Entities subject to assessment by ESG ratings and data products providers could consider:</p> <p>Creating a dedicated section of their website, or a corporate publication, that includes links to, or coordinates for, all the entities' sustainability related publications including, in the information provided on the dedicated section of their website or corporate publication, the dates of the relevant publications, as well as the timelines for which they are expected to be updated or refreshed.</p> <p>Designating a dedicated point of contact to address any requests from or queries to ESG ratings and data products providers that provide coverage for that entity.</p>	N/A.

