

IRSG response to the FCA consultation on proposed approach to ESG ratings regulation (CP25/34)

The International Regulatory Strategy Group (IRSG) is a practitioner-led forum of senior leaders from the UK's financial and professional services. As an advisory body to the City of London Corporation and TheCityUK, we bring cross-sector expertise to promote an open, competitive and globally coherent regulatory framework. We support proportionate regulation of ESG rating providers to improve transparency, manage conflicts and raise quality. Building on the voluntary Code of Conduct for ESG data and rating providers (with IRSG as co-secretariat), we welcome the FCA's measured proposals as a key step towards a clear and consistent UK regime. We have responded to selected questions where members have views.

Key messages

- **Support for proportionate regulation:** The IRSG supports the FCA's measured and principles-based approach to regulating ESG rating providers, building on the voluntary Code of Conduct and reinforcing transparency, governance and quality without stifling innovation.
- **Global coherence and equivalence:** Given the emergence of international ESG ratings regimes, particularly in the EU, the UK framework should prioritise international alignment and consider an equivalence or third-country access mechanism to avoid duplication, support cross-border activity and maintain the UK's global competitiveness.
- **Proportionality and competition:** Authorisation, supervision, fees and SMCR requirements should be carefully calibrated to ensure a clear and proportionate pathway for smaller providers and those supervised outside the Financial Services and Markets Act, safeguarding market choice and competitiveness.
- **Pragmatic approach to data disclosure:** Requirements to share underlying data with rated entities should be carefully framed to protect independence, avoid strategic misuse or delays, and recognise differences between analyst-driven and model-based methodologies.

Question 1: Do you agree with the proposed approach not to apply the Consumer Duty to rating providers?

The IRSG supports the FCA proposal not to apply the Consumer Duty because ESG ratings are designed for professional institutional clients rather than retail customers.

Question 2: Do you agree with the approach to applying the high level standards to rating providers?

The IRSG asks the FCA to calibrate authorisation and supervision so that smaller providers or providers supervised by the FCA outside of the Financial Services and Markets Act (FSMA) have a clear and proportionate path to compliance, thereby maximising choice and competition without compromising the quality of ESG ratings.

The IRSG welcomes the clarity that providers offering ratings on any single aspect of environmental, social or governance factors fall within scope. We also support the FCA's use of terminology such as 'rated entities' and 'rated items', which appropriately captures providers assessing assets or instruments such as carbon credits.

Question 3: Do existing regulatory regimes sufficiently address the risk of harm? If not, which areas need to be addressed and why?

To avoid perimeter uncertainty (which itself creates risk of harm and uneven compliance), HMT will need to amend the definition of "market access arrangement" and the scope of Article 63W (unregulated benchmarks) under the Regulated Activities Order (RAO) appropriately.

Question 4: Do you agree with the proposed minimum public disclosures in Table 2?

The IRSG broadly agrees with the minimum disclosures.

Question 5: Are any key minimum public disclosures missing from Table 2? If so, which and why?

The IRSG does not propose additional disclosures at this stage. The IRSG recommends publishing more detailed guidance, which could take the form of worked examples, to support consistent interpretation across providers.

Question 6: Do you agree with the proposed disclosures for direct users and rated entities and the approach to onward sharing?

The IRSG supports the direction of travel. We also recommend publishing guidance so that expectations are consistent and implementation of the requirements remains pragmatic. In particular, clarity on the level of detail required compared with public-facing disclosures.

Some members are concerned that the requirement to provide, upon request, ‘the data used to assess the characteristics of the rated item’ may create risks of strategic delays or undue pressure on providers prior to publication. The IRSG therefore asks the FCA to clarify timing, scope and frequency of such requests to ensure that transparency is strengthened without undermining independence or timely publication.

Question 7: Are any key minimum disclosures missing from Table 3? If so, which and why?

The IRSG does not propose adding further minimum disclosures to Table 3. However, we ask the FCA to clarify several terms to ensure consistent and proportionate application across different ESG rating provider business models, particularly those that rely on modelled or automated scoring rather than analyst-driven assessments.

First, the requirement to provide a “detailed explanation of the sources of specific data points used in the rating” would benefit from clarification. It is unclear how much detail is expected, and whether this goes beyond the approach taken in comparable regimes such as the EU, which require providers only to identify the source. Greater precision would help avoid disproportionate expectations for providers that use aggregated datasets or third-party data feeds within automated methodologies.

Second, some members ask that the FCA clarify the requirement to disclose the “reason for any material change in a rating or its underlying data”. Providers that rely on modelled scores typically cannot explain why the underlying data provided by issuers or third-party sources has changed, only that it has been updated. In these cases, it would be helpful to confirm that identifying the fact of the data change is sufficient, rather than requiring narrative explanations that may not be available.

Question 8: Do you agree with the general expectations for transparency?

The IRSG agrees with the general expectations for transparency. The minimum disclosure requirements appear reasonable. However, several terms require further clarification to ensure consistent and proportionate application across different rating models (see response to question 7).

The IRSG also emphasises the importance of consistency with external frameworks such as the ISSB to ensure interoperability and minimise duplication for users operating across jurisdictions.

Question 10: Do you agree with the proposed governance approach for rating providers?

The IRSG broadly supports the proposed governance approach, and agrees that a principles-based framework can offer helpful flexibility across different ESG rating business models. However, members note that the principles-based approach also creates uncertainty in practice, particularly around proportionality for smaller firms and the treatment of ancillary consulting activities. In contrast to the European Securities and Markets Authority's (ESMA) more rules-based structure, the FCA framework relies heavily on interpretation. The IRSG therefore asks the FCA to provide supplementary guidance and practical examples to support consistent application, including on: (i) how proportionality should operate in practice (including any relevant thresholds or supervisory indicators), (ii) fee expectations for smaller providers, and (iii) the management and disclosure of conflicts where firms also offer consulting services. This would give providers greater operational certainty while preserving the benefits of a flexible, outcomes-based approach.

Question 11: Do you agree with the proposed approach to systems and controls including quality control and methodology, data quality and accuracy, record keeping, and personal transactions?

The IRSG does not have any specific objections at this stage. The IRSG supports proportionate expectations and consistent definitions so that controls enhance quality without unnecessary burden.

Question 13: Do you agree with the proposed approach to conflicts of interest?

The IRSG supports the proposed approach and notes that it aligns with Code of Conduct principles already used in the market.

Question 14: Do you expect any challenges in implementing the proposed rules? If so, which and why?

The IRSG identifies potential risks from unclear definitions and uncertainty around the application of proportionality. The IRSG considers that addressing the requested clarifications on transparency and perimeter issues will help to mitigate these risks.

Question 15: Do you agree with the proposed approach for stakeholder engagement? If not, what would you change?

The IRSG supports the FCA's proposed approach to stakeholder engagement. Constructive engagement between providers, users and rated entities is essential, and we encourage the FCA to provide guidance that reflects the diversity of rating models and data flows across the market.

The IRSG considers it is important that providers set out clear and transparent engagement processes so that rated entities understand how and when they can input into rating activities, the steps involved in reviewing information, and the expected points for interaction.

Question 16: Do you agree with the proposed approach for complaints handling?

The IRSG supports clear complaint channels and requests the FCA to indicate what constitutes sufficient time for acknowledgement and final response, drawing on practice in related regulatory settings where appropriate.

Question 17: Do you expect any significant challenges in implementing the approach for stakeholder engagement or complaints? If so, which and why?

The IRSG foresees procedural and definitional challenges. Some members recommend clarifying time expectations for complaints and recognising differences in operating models to reduce friction.

Question 21: Do you agree with applying the core senior managers and certification regime to ESG rating providers? If not, what alternative would you propose?

The IRSG recognises the rationale for applying the core senior managers and certification regime. The IRSG encourages careful tailoring so that responsibilities and the approval/certification process reflect rating activities in a proportionate manner and align with wider streamlining objectives. It is important that any SMCR requirements do not present an unnecessary barrier to smaller, non-UK or other providers who are supervised outside of FSMA.

Question 23: Do you agree with the proposed application fee structure for ESG rating providers? If not, why?

The IRSG supports fees and thresholds that reflect market realities and encourage participation by providers of different sizes while maintaining quality.

Question 28: Do you have any additional comments on the proposed rules and guidance including any alternative approaches or other topics?

The IRSG recognises that defining the regulatory perimeter for ESG ratings is inherently challenging given the pace at which methodologies, products and market practices are evolving. In this context, the proposed framework adopts a pragmatic and proportionate approach. The use of broad and principles-based drafting appropriately reflects the dynamic nature of the market and reduces the risk of premature obsolescence.

The effectiveness of the regime will depend heavily on ongoing FCA guidance and structured engagement with industry. Experience from the development of the Code of Conduct demonstrates the difficulty of drawing clear boundaries in this area without creating new ambiguities or unintended gaps. Continued supervisory dialogue will therefore be essential to ensure consistent interpretation and smooth implementation.

Jurisdictional scope and international alignment

The IRSG recognises that territorial scope and the treatment of overseas ESG ratings providers are determined through the RAO and therefore sit with HM Treasury rather than the FCA. In practice, the interaction between the RAO and the new ESG ratings regime will still require clarity so that internationally active firms understand when UK authorisation is required and how the UK framework applies alongside other regimes.

Several jurisdictions, including the EU, have introduced or are developing dedicated ESG ratings regulations. Given that many ESG ratings providers will operate across both the UK and EU markets, coherence between the respective regimes is essential. Although the frameworks are broadly aligned in purpose and structure, specific divergences, for example in data disclosure requirements to rated entities, may create additional compliance complexity in practice. Over time, this could incentivise internationally active firms to prioritise one regime over another, thereby reducing the practical relevance of the UK framework.

In this context, the IRSG encourages HM Treasury, working closely with the FCA, to consider establishing an outcomes-based equivalence framework for third-country regimes. Drawing on established precedents such as the credit rating agency framework, an equivalence mechanism would allow providers subject to comparable regulatory and supervisory standards to offer services in the UK without duplicative authorisation and compliance requirements. Ensuring that the UK regime can operate coherently alongside EU regulation would help preserve the UK's competitiveness and support smooth cross-border activity.