

26 March 2026

**Sustainable Finance Policy
Financial Conduct Authority**

12 Endeavour Square
London E20 1JN

Submitted by e-mail to: cp25-34@fca.org.uk

Dear Sustainable Finance Policy team,

**CFA UK & CFA Institute letter in response to the FCA's CP 25/34 on ESG Ratings :
Proposed approach to regulation**

We support the FCA's aim to make ESG ratings more transparent, independent, reliable and understandable. Our previous June 2023 response to HMT's consultation on the same topic was aligned with this view.

- [response---june-2023---hmt-re-esg-ratings.pdf](#)

Our answers are contained in Appendix 1 and two overarching points summarized below. Kindly note that we have not responded to questions 23-30, as there will be other bodies better placed to address those.

Considering the global nature of the sector

We commend the FCA for alignment of their approach with the IOSCO guidance. The ESG ratings industry is global in nature, both in terms of the players, the development of assessment methodologies and the underlying science, making consistency and interoperability of regulatory frameworks across countries crucial. Aligning UK regulation with international standards—such as IOSCO's and the ICMA's Code of Conduct for ESG Ratings and Data Products Providers—supports comparability and market confidence.

By integrating these international approaches, the UK can advance the FCA's aim to deliver ESG ratings that are not only clear and comparable, but also trusted and widely understood.

For the avoidance of doubt, we are not advocating harmonisation or convergence of ESG ratings - differences in ratings outcomes are natural in the short to medium term, and this diversity should be welcome as the sector develops. Rather we wish to emphasise the need for transparency and ease of understanding so that users can benefit from ratings in a way that suits their particular needs or investment process.

What we think should happen over time as the sector matures, is a natural diminution of the variability across ratings due to interpretative differences or insufficient data harmonisation. This process, however, will need time as both underlying data and the rating methodologies mature.

Detailed rules vs. Principles-based approach

We support the approach of operating under consistent high level umbrella standards and selectively disapplying less relevant aspects, which is something we have consistently advocated for in relation to new innovative products and services.

We think this is a more efficient and consistent approach for the regulator than developing too many bespoke regulations for different types of products and services.

Accordingly, we question the need for bespoke rules in area such as outsourcing, complaints handling and record keeping. We do however agree that giving notice of material change, stakeholder engagement and conflicts management are areas where ESG ratings will benefit from specific regulatory clarity.

We hope our comments are useful and would be grateful for the opportunity to meet and discuss our feedback. We consent to publication of our response.

Yours sincerely,

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With thanks for their contributions to our volunteers: Chris Bamberry, CFA, Deborah Kidd, CFA, CFA Institute, Nicole Gehrig, CFA Institute and the oversight of CFA UK's Ethics & Professionalism Steering Committee.

APPENDIX I
Responses to 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.

We agree in principle that purely wholesale client services should not imply application of the Duty, which is a position we believe is also aligned with the FCA's view on the application of the Duty to credit rating agencies.

However, when there is a degree of influence on retail client outcomes of the activity undertaken even with no direct retail marketing/sale, it requires further consideration.

We also question the apparent contradiction between disapplication of the Duty and the Transparency requirement that onward communication sharing or the public communication option with retail clients implies.

Disapplying the Duty while encouraging rating providers to "consider the Duty when they conduct their business" risks increasing regulatory ambiguity and confusion.

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.

We agree with the approach, which we have also consistently advocated for in relation to new innovative products and services such as technology driven solutions – i.e. operate under the standard high level umbrella standards and selectively disapply less relevant aspects.

We think this is a more efficient and consistent approach for the regulator than developing bespoke regulations to keep pace with different or new types of products and services. This approach applies well in areas such as MAR, SYSC, and prudential requirements.

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?

Your proposal is in line with simple non duplicative regulation, but we question the apparent contradiction between tailored regulations for some firms whereas other firms (also engaged in broader activities) would operate under their existing permissions and rules - in areas such as conflicts of interest, governance and transparency align.

This is especially the case when internally developed ESG ratings are used by Benchmark administrators within their own indices that are then used by investment and fund managers. Similarly in the case of investment firms and asset managers

producing ESG ratings as part of their internal investment process, there should be some degree of alignment on transparency and communication requirements where applicable.

Put another way, **the consumers of ESG ratings should have a broadly similar experience (for example disclosure) and protection regardless of the source of the ratings.**

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.

For a minimum public disclosure, Table 2 does a good job as it may also be used by prospective users of ESG ratings, entities that may or may not be already rated or assessed, and academics; these entities would benefit from the disclosures.

From the perspective of a retail end investor, it probably goes above and beyond and simplifying the methodology description should be considered for this audience, for example removing the breakdown of factors, data types, and data sources. The emphasis here should be on being jargon free, simple and easy to understand and useful for the average retail customer.

On the other hand, **under the Risks section, there is a high possibility that firms default to using blanket high-level disclaimer / caveat language.** This should be discouraged and a clear expectation created that the key risks should be specified along with their impact and what it means for the use and interpretation of ratings by investors.

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.

We have the following suggestions:

- In tandem with our suggestion above to simplify the methodology section, we **recommend adding a link or reference** to voluntarily access more detailed information, were any end user interested in that. This detailed information could simply be of the nature provided to direct users.
- We suggest **adding the date of the disclosure review and the specific period** over which data was assessed or covered.
- In the methodology section the table outlines disclosing the policies on data gaps, corrections and updates (including frequency). We suggest also **disclosing whether estimated data is used in the assessments when there are data gaps.** This is included in table 3 and is most relevant to the companies

rated and direct users, but could also be relevant for prospective users accessing table 1.

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

We support the additional minimum disclosures for this group, which will go a long way in addressing issues of transparency and credible usage of ratings.

We also agree that in the onward sharing scenario, the discretion on degree of disclosure sharing should lie with the person sharing.

However, when the receiver of the information is a retail consumer / part of the public category, the attached disclosure should be required to comply with Table 2.

Otherwise, public consumers of ratings information will receive inconsistent information from different sources. Arguably their more common source of information will be the onward sharing of disclosures by investment and fund managers.

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.

Table 3 is quite comprehensive and covers the key points.

Our key suggestion for additional disclosure is:

Methodology changes over time vs ratings i.e. **tracking any past changes in ratings to new processes and clarifying which ratings were under old or new (revised) processes.** There are frequent enhancements and changes to methodology in this sector as the discipline evolves. This could be due to methodology changes or due to changes in the quality and nature of data used, with the added possibility of the same data resulting in rating changes over time.

We however emphasise that such disclosure should be limited to material changes only so as not to obfuscate the picture.

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

We agree with the approach.

In general, we do not expect ratings providers to face challenges in implementing the required disclosures, other than in relation to proprietary information and intellectual property.

The latter is an important issue for the regulator to bear in mind in framing disclosure requirements, for example, **disclosing data sources and risks is appropriate, but sharing model details may infringe on intellectual property.**

There are also some areas that need further consideration, some of which we have flagged earlier:

- The ability of onward sharers to properly discern and communicate information appropriately, for example formatting such as to suit a retail consumer
- The ability of less sophisticated end consumers to follow the public disclosures, hence the suggestion to simplify some aspects
- The data retention and categorization requirements for all parties in the chain, as ESG rating methodologies evolve over time and rating revisions take place

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

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.

We are **not convinced of the case for extensive tailoring of regulation related to governance for ESG ratings providers**, and favour consistency of regulation as far as possible, with the possibility of selective disapplication if essential.

Of the areas you have outlined as examples, it is not clear why the FCA feels that the following areas are not being covered by standard regulatory expectations or are areas that critically require bespoke rules.

- Outsourcing of activity but not responsibility for core obligations
- Adequate internal systems and controls such as reviews of methodology
- Data quality and record keeping

The exception that we agree with is the notice of material change - covered in the next question.

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?

We agree that this is **an important specific requirement that will support transparency and credibility in this area.**

ESG ratings methodologies continue to evolve and need to stay abreast with data developments, climate science and sustainability targets and yardsticks, which makes this requirement worth calling out as a bespoke rule.

Notice to rated entities and users appears to be proportionate.

Issuing a notice to the public users of information may be excessive at this stage.

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

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

We support the conflicts of interest proposals, given the myriad potential conflicts of interest that could arise in this area, some of which you have mentioned.

Identifying, managing and disclosing conflicts needs to be a relative focus of the regulatory framework for ESG ratings providers, to ensure the integrity of ESG ratings and capital allocation and pricing decisions.

We note that the proposals are largely modelled on the IOSCO recommendations and do not expect particular challenges in implementing the rules, many of which apply to all firms.

Firms should however **be allowed the time required to determine the “appropriate steps” taken to manage this risk** and reflect the same in their conflicts policy.

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.

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

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.

We support the tailored rules proposed for stakeholder engagement, with the area of rated entity engagement and data management requiring particular attention.

We suggest a caveat is added in the factual errors and feedback sections, for the ratings provider to consider and ensure compliance with the Market Abuse Regime (MAR), as **some of the information proposed could potentially be MNPI depending on the timing of engagement.**

Regarding complaints handling, however, (similar to our response to Q's 10-11), we do not see the rationale for tailored rules in this area.

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

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

We have considered two different perspectives in relation to this question:

- In favour of extending FoS: ESG ratings imply a service being provided by a firm that may be directly or indirectly used by consumers and impact their investments and outcomes. Therefore, the possibility of disputes and potential consumer harm cannot be ruled out and in that scenario the existence of an impartial regulatory referee appears to be in consumer interest.
- Not in favour of extending FoS, as you have proposed: ESG rating is still an evolving science and itself dependent on ongoing development of raw data availability and reliability. To impose the FoS option at this stage could inhibit development of the sector and pose unreasonable liabilities.

ESG ratings methodologies are not as mature as, for example, credit ratings, which are based on identifiable data, well established financial disclosure requirements, and high consistency in the disclosure of financial information. Relevant research, such as referenced below, has indicated that correlation between credit ratings is accordingly higher (average c. 0.70) compared to ESG ratings (ranging from c. 0.38-0.70), demonstrating the inconsistency inherent in the sector at this stage.

- *Aggregate Confusion: The Divergence of ESG Ratings* by Florian Berg, Julian F. Kölbl, Roberto Rigobon of MIT Sloan and the University of Zurich published April 15, 2022

The impact of ESG ratings also depends on how they are used in an investment process and how significant they are for consumer outcomes. The risk of gross negligence can be discounted to a large extent as the majority of consumers will perceive an impact by way of the investment product in which an ESG rating is embedded and they have invested in – wherein they have recourse to a legitimate complaint process and access to the FoS in relation to the investment product provider.

On balance we support your proposal, as **at this stage of development it feels that imposing outcome-based liabilities on ESG ratings providers would be disproportionate.**

However, we do not view this as a one-time decision for the FCA. As we have suggested in the response to Q4, this is an aspect that requires periodic review of the regulatory approach as the sector evolves.

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

As per the previous response, we agree with this proposal.

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?

We agree with the approach to application of SMCR, as ESG ratings are increasingly a component of the investment process, and firms issuing ratings should hold key individuals responsible and accountable for proper diligence and ethical practices in the generation of ESG ratings.

In this context we however question your statement “We do not expect many employees of ESG rating providers, if any, will meet the definition of being a Certification Function.”

On the contrary we expect that in a robust data driven and partly quantitative process, several persons involved in the analysis and assessment of data and application of complex methodologies should be certified to undertake the activity.

This is also important for building integrity in the sector and wider confidence in the use of ESG ratings.

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?

Yes, it is consistent with other regulated activities and should be apparent to firms when they require authorization to operate this line of activity.

APPENDIX II **About CFA UK and CFA Institute**



CFA UK serves nearly 12,000 members of the UK investment profession. Many of our members analyse securities, manage investment portfolios, advise on investments, or are in roles responsible for investment operations or oversight.

Our role is to help investment professionals build and maintain their skills and competencies so that they are technically and ethically competent to meet their obligations to clients. We advocate for high standards of ethical and professional behaviour and our work with regulators, policymakers and standard setters is focused on skills, knowledge, and behaviour.

We are not a lobby group or a trade body. We are an independent, professional association whose mission is to ‘educate, connect and inspire the investment community to build a sustainable future.’

Founded in 1955, CFA UK is one of the largest member societies of CFA Institute. Most of our members have earned the Chartered Financial Analyst® (CFA®) designation. All our members are required to attest to adhere to CFA Institute’s Code of Ethics and Standards of Professional Conduct.

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It awards the Chartered Financial Analyst® (CFA) and Certificate in Investment Performance Measurement® (CIPM) designations worldwide, publishes research, conducts professional development programs, and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry.

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