

Response to Financial Conduct Authority on

CP25/34: ESG ratings: proposed approach to regulation

March 2026

UK Finance is the collective voice for the financial services industry. Representing 300 firms, we are a centre of trust, expertise and collaboration at the heart of financial services, championing a thriving sector and building a better society.

We welcome the opportunity to respond to FCA's [CP25/34: ESG ratings: proposed approach to regulation](#).

Our members strongly support the regulation of Environmental, Social and Governance (ESG) ratings providers. ESG assessments play a significant role in investment decisions and shape capital allocation.

To help improve quality and assurance before the implementation of the new regulatory regime for ESG ratings, UK Finance participated in the Data and Ratings Working Group (DRWG) to support the development of the voluntary [Code of Conduct for ESG Ratings and Data Products Providers](#). UK Finance also [responded to HM Treasury's Draft Statutory Instrument \(SI\): The Financial Services and Markets Act 2000 \(Regulated Activities\) \(Amendment\) \(No. 2\) Order 2024](#), in April 2025.

We welcome the FCA's proposed regulatory approach to enhance transparency and strengthen trust. UK Finance members such as banks are often both users of ESG ratings and entities that are themselves rated. We therefore view this new regulatory framework as essential for reinforcing market confidence and advancing sustainable finance.

Below, we set out our response to select consultation questions.

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 believe that an important factor for users of ESG ratings, when comparing different products, is the frequency with which entities are re-rated. For example, some ratings agencies conduct a full reassessment only every three years.

We recommend the FCA clarify that the requirement to disclose 'frequency of data updates' as part of the minimum public disclosure includes the frequency with which rated entities are re-rated.¹

¹ Page 24 of the Appendix1 Draft Handbook text (Page 134 of the CP)

The proposal specifies that the provider should disclose “when the ESG rating was last updated and the expected timeframe for the next review” to direct users and rated entities.² If a requirement to disclose re-rating frequency is not included under ‘frequency of data updates,’ we suggest that this information on frequency of re-rating should be a minimum public disclosure requirement, rather than something provided only to current users.

‘Frequency of data updates’ could include not only when the rating was last updated (re-rated), but also when the rated entities last provided feedback on the ratings, so stakeholders can understand how well the process engages the rated entities.

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

Some ratings providers offer a wide range of supplementary products in addition to their main headline rating and accompanying report. At present, rated entities often do not have visibility over these additional tools, such as assessments of temperature alignment or Sustainable Development Goal revenue alignment, even though they are used by customers of the ratings provider. We believe this lack of transparency is problematic. To support fairness and accountability, we recommend that all assessment tools used by a ratings provider and the associated methodologies also be made available to the rated entity.

This issue is increasingly significant as ESG ratings themselves are no longer the primary tools used by many investors. Transition readiness assessments, biodiversity dependency scores and similar forward-looking analytics now play a greater role in investor decision-making, yet none of these tools are visible to rated entities.

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

We agree with the proposal, as it establishes a clear framework ensuring that ratings providers remain responsible for compliance even when parts of the process are outsourced. Maintaining a clear responsibility structure is essential to safeguarding the quality of outsourced products.

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

² Page 27 of the Appendix1 Draft Handbook text (Page 137 of the CP)

If not, please specify which elements you disagree with, what alternative approach you would suggest and why.

We agree with the proposal to require ratings providers to implement appropriate quality-checking mechanisms to ensure that ratings are produced in accordance with their stated methodologies and processes. We also support the requirement for providers to review their methodologies periodically and to notify stakeholders of any updates.

To further enhance coherence and credibility, we recommend adding a requirement for providers to screen for potential inconsistencies or deviations against a peer group or against previous years. These additional screenings would help ensure that ratings remain robust, comparable and reliable over time.

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 with the proposed requirement as it is important for both rated entities and users to be notified before methodological changes come into effect and ensure appropriate engagement opportunities.

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

We agree with the proposal requiring providers to adopt appropriate processes to identify, prevent and manage risks, to disclose those risks, and to maintain an effective policy framework.

While these measures would help reduce potential issues, we believe that ESG ratings providers should also be required to establish a clear firewall between their sales and evaluation divisions. In practice, this could include assigning separate staff to each function to more effectively prevent conflicts of interest and safeguard the integrity of the rating process.

We encourage the FCA to employ an appropriate supervisory structure to ensure these measures are put into practice appropriately to prevent any risk of conflicts of interest.

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

We welcome the proposal allowing rated entities to request their rating results before first publication in order to verify factual accuracy. This measure helps prevent entities from being rated inaccurately.

However, we recommend broadening the requirement so that any newly issued rating, including re-ratings, is accompanied by a notification to the rated entity.

Without receiving notice, entities would not be able to correct factual inaccuracies in subsequent updates. We therefore recommend specifying at least an annual factcheck opportunity, aligning more closely with established credit rating practices where issuers may review draft updates before publication.

We welcome the principle that entities be given ‘sufficient time’ to correct factual errors before and after publication, but believe the proposal could benefit from greater clarity. To ensure fairness and consistency, we recommend that the FCA define what ‘sufficient time’ means in practice. As a reference point, some other regulatory regimes (such as credit ratings) allow short, defined review windows (e.g. at least 24 hours or a full working day before publication), giving rated entities a predictable opportunity to correct factual issues. A similarly clear standard would support effective engagement.

Furthermore, the requirement for rating providers to have a ‘procedure for receiving and processing stakeholder feedback’ would benefit from greater detail to avoid inconsistent implementation across the market. To ensure predictability and accountability, we recommend the FCA clarify what this procedure must include – for example, a documented process setting out steps, timelines, decision criteria, and how feedback will be communicated or resolved. In the same vein, we consider that a significant gap remains around solicited engagement with issuers. There should be a clear and formal option for rated entities to speak directly with their ESG analysts, in the same structured and transparent manner that is standard practice for credit rating interactions.

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

Rated entities should be able to bring factual errors to the attention of the ESG ratings provider, and ratings agencies should bear responsibility for correcting any identified errors and clearly flagging the correction where a rating has been reviewed.

In this context, once an error has been identified, ESG ratings providers should also be required to implement processes to prevent similar issues from recurring, alongside maintaining a formal procedure for receiving and processing feedback.

If the complaints were not accepted, the proposal should clarify that ESG ratings providers are required to provide feedback on why evidence has not been accepted and explain in detail with reference to methodologies.

Given that the FCA has not assigned a third-party to investigate complaints (e.g. the Financial Ombudsman Service will not deal with complaints), the FCA should offer an escalation procedure which ensures that complaints from rated entities will be treated fairly and appropriately.³

³ Page 34 of the Consultation Paper

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?

The proposed guidance⁴ will help users to understand where the regime might apply. That said, the FCA should further clarify the distinction between ESG ratings and ESG data products.

Financial institutions often use emissions calculation tools and data from external data providers for their risk management, disclosure and investment decisions. As raw emissions data collected from companies varies in quality, quantity and granularity, these calculation tools often apply certain judgements and assumptions, along with use of proxy data and data-quality assessments. Since these data products do not come with an opinion or a score, we understand that these tools and data will be defined not as ESG ratings under the proposed regime, but as ESG data products. Therefore, to avoid any confusion, we ask the FCA to explicitly clarify that calculations and related quality assessments are not scoring or rating.

.....
If you have any questions on this response, please reach out to:

Ian Bhullar, Director, Sustainability Policy.
ian.bhullar@ukfinance.org.uk

Drafter:
Kyogo Kawata, Seconded, Sustainability Policy
kyogo.kawata@ukfinance.org.uk

⁴ Annex H of the Appendix 1 (Page 153- of the CP)