FCA Consultation Paper CP25/34

European Association of Sustainability Rating Agencies (EASRA)

Joint response of member companies

March 31, 2026

EASRA welcomes the opportunity to respond to the FCA Consultation Paper CP25/34. We strongly support the FCA's objective of improving transparency, governance and investor confidence in the ESG ratings market. ESG ratings are increasingly influential in capital allocation decisions, and a well-designed regulatory framework can strengthen the reliability and credibility of this market.

As an association of specialist ESG rating providers, EASRA broadly supports the direction of the FCA's proposals. Our comments focus on six areas where clarification or adjustment could materially improve the effectiveness of the proposed regime while supporting the FCA's objectives of improving market transparency, strengthening market integrity, and promoting effective competition among ESG ratings providers.

Our observations relate to:

1. Methodological transparency
2. Conflicts of interest
3. Engagement with issuers
4. Scope of the regime
5. UK/EU regulatory alignment
6. Proportionality of the regulatory framework

1. Methodological Transparency

EASRA strongly supports the FCA's proposal to require ESG rating providers to disclose their methodologies in detail. In particular, we welcome the consultation's reference to disclosure of:

- "full explanation of the methodology",
- "how the factors, inputs or data are weighted",
- "detailed explanation of the sources of specific data points used", and

- "how data is estimated (if applicable)".

These requirements have the potential to significantly improve market transparency.

However, we are concerned that in practice such requirements may lead primarily to descriptions of processes rather than explanations of how individual rating outcomes are produced.

Many ESG ratings providers already publish extensive methodology documents and describe these as "fully transparent". However, these documents frequently focus on:

- the governance of the rating process,
- how scores are aggregated across categories, and
- which ESG issues are considered.

They often do not disclose the key analytical steps that determine the final score.

In particular, the following questions often remain unclear to users of ESG ratings:

- how exactly a specific factor score has been generated.
    - *for example, how a score of 6.7 for a particular ESG issue was derived from underlying data*.
- why a factor has been assigned a particular weighting.
    - *for example, why an issue is weighted at 22.8% of the total score*.
- how an estimated or proxy datapoint is calculated where actual data is unavailable.
    - *example, is the datapoint an average of actual datapoints disclosed by regional sector peers?*

The effectiveness of the FCA's transparency objectives will depend on whether ESG ratings providers are required to explain these analytical components of their scoring methodologies, rather than solely describing their processes.

We also note the consultation's reference to "trade secrets", which it states should be invoked only in rare circumstances. EASRA's position is more straightforward: if disclosure requirements are precisely and effectively specified for all providers, no recourse to trade secrecy in respect of how a rating or score is calculated should be necessary.

However, we draw an important distinction between methodological transparency and data disclosure. The analytical methodology must be fully transparent, but it should not be a requirement that all raw underlying data used in the calculation of a rating be disclosed, provided that data is not already in the public domain. Requiring disclosure of proprietary or commercially licensed data would impose significant costs on ratings providers and may in some cases even be contractually prohibited by underlying data suppliers.

We therefore encourage the FCA to clarify that:

- full methodological transparency is required, including the analytical steps used to generate rating outcomes, with no recourse to claims of trade secrecy;
- disclosure of raw underlying data that is not in the public domain should not be obligatory; and
- the extent of data disclosure owed to rated issuers is not the same as that owed to a public audience, nor to clients (i.e. the investment firms that purchase and rely upon ESG ratings). These three disclosure obligations do not serve the same purpose and should be calibrated accordingly;

We also draw the FCA's attention to a specific circumstance in which standard methodology disclosure rules could cause competitive harm. In the rare cases where a rated issuer itself operates as an ESG data or ratings provider — and therefore competes directly with the rating firm — mandatory disclosure of detailed rating methodology to that issuer could in effect amount to the transfer of intellectual property to a direct competitor. We therefore encourage the FCA to consider a targeted carve-out from issuer-facing methodology disclosure requirements for such a circumstance.

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2. Conflicts of Interest

EASRA supports robust disclosure of conflicts of interest in the ESG ratings industry.

The consultation suggests that disclosure of certain conflicts may not be necessary where firms have implemented appropriate 'mitigation' measures. We respectfully question whether this approach is consistent with the FCA's approach to conflicts in other areas of the capital markets.

For example, firms producing investment research are required to disclose potential conflicts even where internal controls and mitigation measures exist. These disclosures include matters such as whether the research provider intends to seek advisory or corporate finance business from the issuer covered in the report.

Given the growing influence of ESG ratings on investment decisions, a similar level of disclosure would appear appropriate.

While some conflicts are widely recognised — for example where the rated issuer pays for the rating, or the ratings provider sells advisory services to rated issuers - there are other less visible but potentially significant conflicts that may arise within certain business models, and these should be flagged by rating providers if applicable.

Two examples illustrate this point:

- Index construction activities
    - Some ESG rating providers also construct and publish ESG indices composed of issuers meeting particular rating thresholds. Where a single firm both generates ESG ratings and operates ESG indices based on those ratings, a clear conflict of interest exists: the commercial interests of the index business may create incentives to avoid frequent or

substantial rating changes for index constituents, in order to minimise index turnover and associated client disruption. This is a genuine conflict that warrants disclosure. By contrast, an independent rating provider that supplies ratings to a third-party index provider on arm's length commercial terms does not, in EASRA's view, thereby acquire a conflict of interest.

- Commercialisation of ESG ratings by issuers
    - Where ESG ratings providers derive revenue from issuers who subsequently publicise or licence their ratings for marketing purposes, this may create incentives to assign positive ratings, that issuers are willing to promote publicly.

In our view, full disclosure of such potential conflicts — even where mitigation measures exist — would enable investors to better understand the context in which ESG ratings are produced.

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3. Engagement with Issuers

We understand that the FCA has expressed a clear intention not to encourage 'negotiated' ESG ratings. However, aspects of the proposed framework regarding engagement with issuers may unintentionally create circumstances in which ESG rating providers face substantial lobbying efforts from rated entities.

The FCA's experience regulating investment research providers is instructive in this regard. Engagement between research analysts and issuers is tightly controlled precisely to reduce the risk that issuer pressure may influence published views.
Given that ESG ratings increasingly influence capital allocation decisions, similar considerations may apply in the ESG ratings context.

The proposed requirements regarding mandatory engagement with issuers may also create additional challenges – which in turn could inadvertently raise barriers to entry and inhibit competition within the ESG ratings market.

- Timeliness of ratings updates
    - Where ESG rating providers are required to undertake extensive engagement processes prior to publication or revision of ratings, the ability of ratings to respond quickly to new material information is reduced. Issuers should not have the right to delay the publication of a rating while they review or contest it. ESG ratings are used by investors to make capital allocation decisions; timely publication of ratings is in the interests of efficient market pricing and serves the very investor protection objectives that underpin this regulation.
- Continuous and real-time ESG scoring
    - Some ESG rating providers generate continuous, real-time ESG scores, often by monitoring a broad range of news sources and public disclosures for emerging controversies or material developments. The

value of such products lies entirely in their immediacy of publication; there is no pre-publication stage at which advance notification is possible. A requirement to notify each issuer of every incremental score change and allow a period of response before publication would be not only operationally unfeasible but also fundamentally undermine the business model of these providers. At best, a concurrent notification model, whereby the rating is published simultaneously with issuer notification, and the issuer is afforded a defined response window, might be operationally workable. Overall, we encourage the FCA to ensure that any issuer engagement requirements are calibrated to the nature of the ratings product in question.

- Barriers to entry and competition
    - Mandatory engagement processes may impose a disproportionate operational burden on smaller ESG rating providers, to the point of being practically unworkable. Some smaller firms with limited research staff nonetheless cover many thousands of companies globally. A significant proportion of those companies are headquartered in developing markets where corporate contact details are not consistently published, language barriers are considerable, and the administrative infrastructure needed to support structured engagement processes may be absent. The challenge extends equally to private companies and non-corporate entities such as sovereign issuers, infrastructure projects and municipalities, where no clearly identifiable contact may exist. We would therefore encourage the FCA to codify a best-efforts standard for contact identification. The proposed level of mandatory issuer engagement is, in EASRA's view, operationally unfeasible for smaller providers attempting to operate at scale; it would in practice require either a significant reduction in their coverage universe or an exorbitant level of headcount investment.

We therefore encourage the FCA to consider whether issuer engagement requirements could be calibrated in a way that:

- allows ESG rating providers to verify information where necessary,
- preserves the independence of ratings;
- allows ESG rating providers to identify issuer contact information on a "best effort" basis, and
- avoids creating disproportionate operational burdens, particularly for smaller providers.

4. Scope of the Regime

EASRA supports the principle that regulation should apply to ESG ratings that are produced for use in financial markets and by financial industry participants. Ratings provided for other purposes — for example, for internal supply chain management, corporate benchmarking, or general research — should fall outside the scope of the regime.

We note, however, that scope should not be determined solely by the identity of the immediate client. In particular, where an ESG rating provider assesses private companies or their supply chains, and those ratings are subsequently used by financial institutions in the pricing of credit or insurance products offered to those companies, the regulatory rationale for oversight applies with equal force. We encourage the FCA to ensure that the scope provisions capture such cases.

5. UK/EU Regulatory Alignment

EASRA regards maximum alignment between the UK and EU regulatory frameworks for ESG ratings as a matter of first importance. The EU is enacting its own ESG Ratings Regulation, and a significant number of ESG rating providers — particularly smaller specialist firms — operate across both jurisdictions. Where the UK and EU regimes diverge materially in their substantive requirements, the compliance burden on such firms will be compounded rather than shared.

Divergence also creates the risk of regulatory arbitrage, whereby ratings are distributed into whichever jurisdiction imposes the lighter regulatory burden, potentially undermining the effectiveness of both regimes. Consistent standards across the UK and EU would support more robust and enforceable oversight of the European market as a whole.

In particular, EASRA urges the FCA to pursue an equivalence framework with the EU, such that firms authorised and supervised under one regime are not required to establish additional regulated entities with duplicated governance and compliance functions in the other. The cost of maintaining separate legal and operational structures in multiple jurisdictions would be disproportionately burdensome for smaller ESG rating providers and would serve no obvious regulatory purpose where the substantive standards are aligned.

6. Proportionality of the Regulatory Framework

EASRA supports a well-functioning, competitive ESG rating market in which firms of different sizes are able to operate and innovate. Smaller and specialist ratings providers play an important role in this market: They often cover niche asset classes, geographies, or methodological approaches that larger providers do not, and their presence supports both market diversity and the quality of ESG data available to investors.

Although the consultation paper does not address the cost of authorisation in detail, EASRA would encourage the FCA to consider this matter carefully as it develops the final framework. We raise it proactively because the structure of regulatory fees can have a significant bearing on the viability of smaller providers.

In particular, we would encourage the FCA to adopt a tiered fee structure that reflects meaningful differences in the scale and commercial significance of regulated firms,

rather than a structure in which a single revenue threshold separates a nominal entry-level fee from a substantially higher authorisation cost. Such a cliff-edge would be disproportionately burdensome for small but commercially viable firms and could deter market entry or force smaller providers out of the regulated sector.

EASRA would suggest that a revenue threshold of approximately £3 million in UK revenues would represent an appropriate boundary between a lower and a higher tier of the fee schedule, with consideration given to further gradations above and below that level. This approach would enable the FCA to maintain a broad regulatory perimeter — which we support — while ensuring that the cost of authorisation does not fall disproportionately on the smaller specialist providers whose participation enriches the market.

Conclusion

EASRA strongly supports the FCA's objective of strengthening trust and transparency in the ESG rating market and welcomes the opportunity to contribute to the design of an effective regulatory framework.

In implementing the final framework, we encourage the FCA to bear the following points in mind, each of which is developed in the body of this submission:

- Transparency requirements should focus on meaningful explanation of how rating outcomes are produced, with no recourse to trade secrecy, while not requiring disclosure of raw underlying data that is not in the public domain.
- Conflicts of interest should be subject to comprehensive disclosure requirements, and we encourage the FCA to consider very broadly the multiple, latent conflicts that exist - such as the direct provision of both ESG ratings and ESG indices.
- Issuer engagement requirements should be calibrated to preserve both the independence and the timeliness of ratings. Issuers should have no right to delay publication pending review or challenge. Requirements must also be operationally workable for smaller providers — in particular for those offering frequent rating updates or even continuous real-time scoring, and for those whose coverage spans large numbers of companies across diverse geographies.
- The scope of the regime should be defined by the use to which ratings are put, so that ratings informing financial decisions — including the pricing of credit or insurance products — are captured, while those produced for non-financial purposes fall outside the perimeter.
- Maximum alignment with the EU ESG Ratings Regulation should be pursued as a matter of priority, including an equivalence arrangement that removes the need for firms to maintain duplicated regulatory infrastructure in both jurisdictions and guards against regulatory arbitrage.
- As the FCA develops its approach to authorisation costs, a tiered fee structure should be adopted that avoids a disproportionate financial burden on smaller providers.

EASRA would welcome the opportunity to engage further with the FCA as the proposed regulatory regime develops.

This response to the FCA Consultation is submitted on behalf of **EASRA** (European Association of Sustainability Rating Agencies) 153, Boulevard Haussmann, 75008 Paris, France, EU Transparency Register: 694267751070-60 and supported by the following member firms:

- Integrum ESG
- EthiFinance
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