

Tracking Progress

Taking stock of ESG ratings and
data products regulations

August 2024





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Foreword



Pietro Bertazzi
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It's absolutely pivotal that the right checks and balances are in place to address this risk wherever possible and ensure capital allocation is efficient and impactful to achieve the goals of global environmental agendas.

Pietro Bertazzi

Transparency and accountability have never been more important. Few can argue with the fact that corporate engagement in environmental action has rapidly increased in the years since the Paris Agreement was signed. An increase that can be associated both with regulatory shifts towards mandatory disclosure and to the growing demand for ESG-related data to inform their capital allocation decisions. Disclosure through CDP skyrocketed in that time, from 5,500 in 2015 to more than 23,000 companies worth two thirds of global market capitalization in 2023. However, increased engagement has increased risks of greenwashing, with some seizing an opportunity to attempt to improve their brand rather than taking meaningful action. So, it's absolutely pivotal that the right checks and balances are in place to address this risk wherever possible and ensure capital allocation is efficient and impactful to achieve the goals of global environmental agendas.

It's in this context that regulators have started to explore the regulation of ESG data products and ratings, tools used by many investors to compare companies' ESG performance and guide their decision-making. As a compass to guide capital allocation, these tools have the potential to truly drive investment towards sustainable activities. Investors have clearly recognized this, seizing on the opportunity to utilize a tool that can support many use cases, from influencing capital allocation and increasing their competitiveness to reducing their portfolio impacts. As many as 94% are now using ESG ratings and data products at least once a month for these reasons. In tandem, regulators have been watching closely, working to ensure that these tools are not used for greenwashing, but these intended purposes.

Last year, CDP published a first-of-its-kind study, 'Data for Public Good', where we unpacked this rapidly changing landscape to guide policymakers toward impactful interventions without generating fragmentation or creating market confusion. In just over 12 months, the regulatory landscape has evolved significantly. At the time, a handful of policymakers were exploring this area. Now they are implementing both voluntary and mandatory policy initiatives, from Europe to Japan.

At CDP, we've continued to track developments closely, assessing the progress made by regulators and identifying the risks and challenges that remain. We've endorsed Japan's Code of Conduct and have contributed as members of the Hong Kong ESG ratings and Data Code of Conduct Working Group, sponsored by the Securities and Futures Commission. I'm proud of the role our initial work had to play in the shaping the developments that we have seen, but there is much more to be done and CDP remains committed to playing our part in the pursue of the public good.

Introduction

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Introduction

18 FIs

with US\$4 trillion in combined assets, identified “Improved ratings by sustainability/ ESG indexes” as the primary driver of substantive financial opportunities open to them.



Environmental, social and governance (ESG) ratings, scores, and other data products such as net-zero portfolio alignment metrics, are tools used by financial institutions (FIs) to measure their portfolio environmental performance and impact. In 2023, 85% of FIs disclosing through CDP identified climate-related opportunities with the potential for substantive financial or strategic impact on their business. Of these, 18, with US\$4 trillion in combined assets, identified “Improved ratings by sustainability/ESG indexes” as the primary driver of substantive financial opportunities open to them. The majority of these FIs reported that the primary impact they foresee is increased access to capital, whilst others reported the potential for “Increased revenues resulting from increased demand for products and services” and “Increased portfolio value due to upward revaluation of assets”. Furthermore, the majority of these FIs believed that these opportunities are likely, very likely or virtually certain to materialize.

In addition to supporting businesses to access capital, ESG ratings and data products also play a role driving business efficiency. The data and analytics provided through these tools can inform decision-makers, from senior management to the board of directors and investors, about bottlenecks, risks and opportunities, as well as to how remain competitive and reduce their portfolio impacts. As companies navigate a new era of mandatory disclosure and standards, these tools can support businesses and FIs to demonstrate compliance. When science-based and transparent, ESG ratings and data products can help decision-makers, from regulators, corporations, to financial institutions to surface the information to drive progress toward a sustainable future and support the allocation of capital towards global environmental agendas, such as the Paris Agreement and the Montreal-Kunming Global Biodiversity Framework.

The growing demand from investors¹ for ESG data and analytics reiterates this strategic role ESG ratings and data products play. In fact, this role has already been acknowledged by the International Organization of Securities and Commissions (IOSCO) and regulators worldwide who are introducing policy instruments to regulate ESG ratings and data products providers (henceforth ‘providers’). IOSCO’s [recommendations](#) on ESG ratings and data products have steered regulators to take a closer look at the functioning of this market.

¹ Bloomberg. (2023). ESG Data Acquisition & Management Survey, 2023, p. 5. Retrieved from <https://assets.bbhub.io/professional/sites/10/Bloomberg-ESG-Data-Acquisition-and-Management-Survey-2023.pdf>.



This report takes stock of the different initiatives adopted by regulators. It assesses the uptake of IOSCO's recommendations across policy initiatives and compares their alignment.



IOSCO's recommendations on ESG ratings and data products have steered regulators to take a closer look at the functioning of this market. Since CDP's 2023 publication "[Data for Public Good: Steering the role of ESG ratings and data products providers](#)," several jurisdictions have progressed their efforts to publish codes of conduct or regulatory frameworks on the topic. One year on, this report takes stock of the different initiatives adopted by regulators. It assesses the uptake of IOSCO's recommendations across policy initiatives (codes of conduct and regulation) and compares their alignment. Through this analysis, this publication aims to share insights with policymakers and industry players to help navigate policy initiatives evolving in this landscape.

This report is paired up with a new interoperability tool, which aims to provide policymakers, providers, and users of ESG ratings and data products with a mechanism to support cross-cutting assessments and compliance with codes of conduct and regulation in this space. Through this tool, CDP intends to stimulate conversation on the ongoing alignment of codes of conduct and regulation, as well as the potential role of reciprocity systems. Policymakers could employ these systems across initiatives to reduce reporting complexity for providers, while simultaneously facilitating due diligence processes for users of ESG ratings and data products. CDP hopes that driving alignment and reciprocity among codes of conduct and related regulatory instruments will speed the development of a globally consistent approach that ensures that FIs and other users will have access to high-quality, comparable ESG data analytics.

Taking stock: From IOSCO's call for action to local policies

2



Taking stock: From IOSCO's call for action to local policies

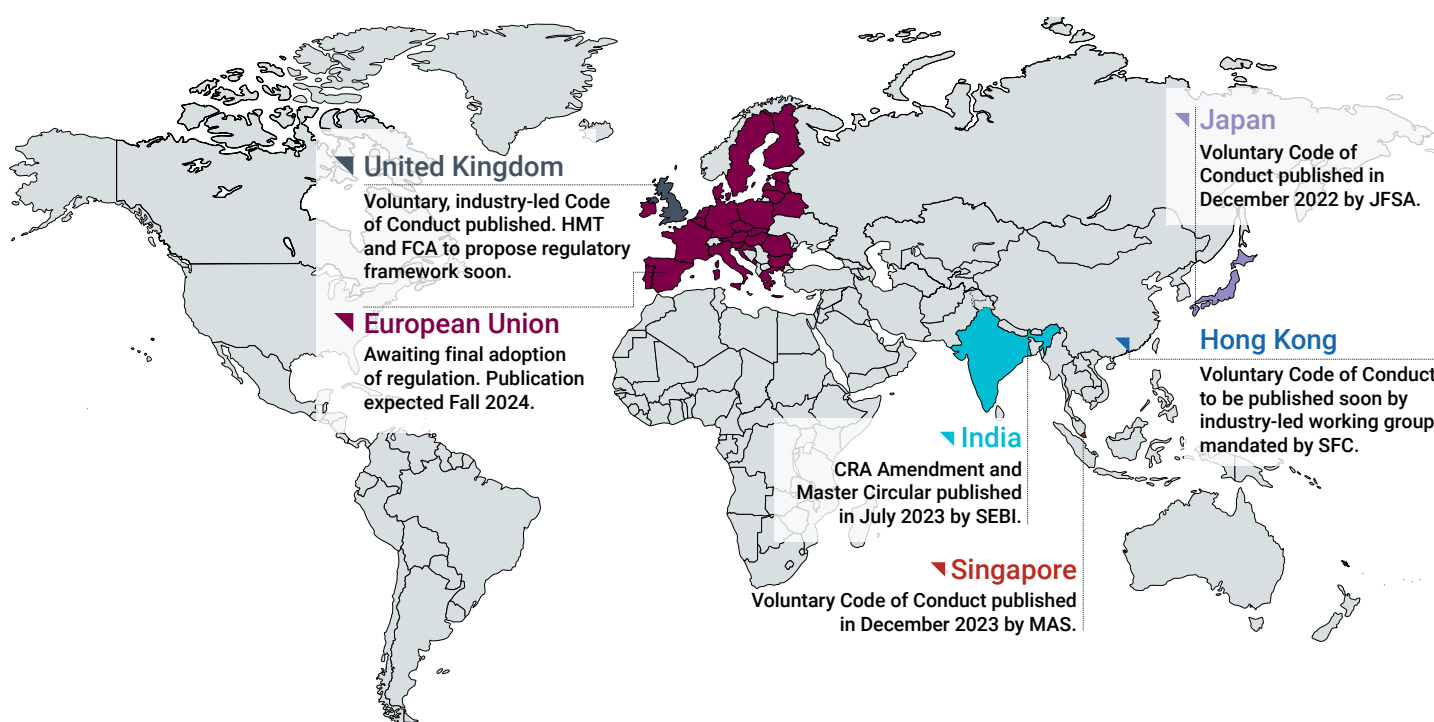
IOSCO's first recommendation, introduced in its 2021 report, targets financial regulators. It suggests they "consider focusing more attention on the use of ESG ratings and data products and ESG ratings and data products providers that may be subject to their jurisdiction."² It also suggests regulators could, inter alia, consider whether there is sufficient oversight of providers; introduce requirements on management of conflicts of interest, transparency, and good governance; and support voluntary industry-led development of standardized definitions and codes of conduct.

In the three years since, a handful of regulators have streamlined IOSCO's recommendation by proposing – or, in some cases, already implementing – policy instruments³ such as codes of conduct and/or regulatory frameworks. This includes Japan's Financial Services Agency (JFSA), the Monetary Authority of Singapore (MAS), the Securities and Futures Commission (SFC) of Hong Kong, the Financial Conduct Authority (FCA) and

His Majesty's Treasury (HM Treasury) in the UK, the Securities and Exchange Board of India (SEBI), and the European Union (EU).

The proliferation of these initiatives indicates that IOSCO's recommendation is being considered by financial regulators at least in Europe and in Asia. The map below indicates which are introducing or already have introduced codes of conduct and/or regulation on this topic.

Figure 1. Map of jurisdictions introducing codes of conduct and/or regulation on the provision of ESG ratings and data products, as per May 31, 2024



² IOSCO. (2021). Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report, p. 35. Retrieved from <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

³ In this report, the terms "policy instruments" or "policy initiatives" are used interchangeably and encompass regulatory frameworks and codes of conduct focusing on the use and provision of ESG ratings and data products.



European Union

In April 2022, the European Commission launched a targeted consultation on the functioning of the ESG ratings market. Findings of the consultation supported the [Commission's proposal](#) for regulation on ESG rating activities. The proposal followed the ordinary legislative procedure, receiving more than [500 amendments](#) from members of the European Parliament (MEPs). Once MEPs reached an agreement for the Parliament's compromise text, they voted in favor of entering interinstitutional negotiations (also known as trilogues) with the Council of the European Union.

In February 2024, the Council and Parliament reached a provisional agreement on the proposal and published the final [compromise text](#) of the regulation. At the time of writing, the proposal awaits formal adoption and publication in the Official Journal of the European Union. Following such publication, the European Securities and Markets Authority (ESMA) should publish technical standards (level 2 regulation) to complement the regulatory framework.



Hong Kong

Since 2022, the SFC has focused on developing guidelines for ESG ratings and data products providers operating in the Hong Kong market. In October 2023, the SFC announced its support for a voluntary code of conduct (CoC), to be developed by the Hong Kong ESG Ratings and Data Products Voluntary Code of Conduct Working Group (VCWG), chaired by the International Capital Market Association (ICMA).

At the time of writing, a draft version of the code of conduct has been published for consultation. The finalized code is expected to be published later in 2024.



India

In India, two consultations⁴ on a regulatory framework for ESG ratings providers culminated in SEBI publishing its regulation in July 2023. The regulation was introduced by [an amendment to the Credit Rating Agencies \(CRA\) Regulation](#) and followed by a [master circular](#) focusing on guidelines for implementation.

The regulation focused on key aspects of IOSCO's recommendations such as good governance and management of conflicts of interest. On transparency, nevertheless, the regulation took a different approach. While IOSCO recommendations focused solely on the disclosure of the methodologies, SEBI introduced a minimum baseline of factors and datapoints (such as zero liquid discharge, job creation in smaller towns, and percentage of "against" votes amongst non-promoter shareholders on appointment of independent directors) that must be included in ESG ratings and transition scores under SEBI's regulatory remit.⁵

When publishing the regulation, SEBI granted a six-month window (ie, until January 2024) for ESG ratings providers to register with the regulator. An [FAQ document](#) published by the Board, has indicated that a list of registered entities would be available on its [website](#). Since the publication of the regulation and as of June 2024, seven ESG ratings providers have registered with SEBI.



Japan

Japan was the first jurisdiction to respond to the IOSCO recommendations. In February 2022, the JFSA structured a technical committee dedicated to drafting guidelines for a voluntary, comply or explain, [code of conduct for ESG evaluation and data providers](#).

The Code, officially launched in December 2022 and based on IOSCO's recommendations, introduces six principles focused on quality of products, transparency, management of conflict of interest, confidentiality, and communication between rating and rated entities.

Since its launch and as of June 2024, 26 providers have released their endorsement of the Code to JFSA and have published their compliance status on their corporate websites. Providers include local and global entities, such as Japan Credit Rating Agency and CDP.

⁴ See the following resources for additional information on SEBI's consultations: SEBI. (2023). Consultation Paper on ESG Disclosures, Ratings and Investing, p. 1-27. Retrieved from https://sebi.gov.in/reports-and-statistics/reports/feb-2023/consultation-paper-on-esg-disclosures-ratings-and-investing_68193.html and SEBI. (2022). Consultation Paper on Environmental, Social and Governance (ESG) Rating Providers for Securities Markets, p. 1-19. Retrieved from https://sebi.gov.in/reports-and-statistics/reports/jan-2022/consultation-paper-on-environmental-social-and-governance-esg-rating-providers-for-securities-markets_55516.html.

⁵ For the full reference of factors and data points introduced by SEBI, see SEBI. (2023). Master Circular for ESG Rating Providers, p. 45-47. Retrieved from <https://www.sebi.gov.in/legal/master-circulars/jul-2023/master-circular-for-esg-rating-providers-erps-73856.html>.



Singapore

After consulting on the topic, the MAS published their [Code of Conduct for Providers](#) of ESG Ratings and Data Products in December 2023. Based on IOSCO's recommendations, this voluntary code of conduct also focuses on transparency of methodologies, governance, and management of conflicts of interest.

Together with the Code, the MAS has provided a [Self-Attestation Checklist](#), which providers are expected to fill out and publish to disclose their adoption and compliance with the Code. This checklist is expected to be published within 12 months of the publication of the Code of Conduct, ie, by December 2024. In [agreement](#) with the MAS, ICMA is expected to host the list of providers who have published their self-attestation checklists to the MAS Code of Conduct. As of June 2024, [ICMA's website](#) confirmed the adoption of the Code by 2 providers.



United Kingdom

In June 2021, the UK FCA consulted on the provision of ESG ratings and data products. The consultation indicated that there was a market appetite to introduce guidance on the matter. In 2022, the FCA [mandated](#) the creation of the ESG Data and Ratings Working Group (DRWG), an industry-led working group composed of government officials, providers and users of ESG ratings and data products, academia, and civil society to develop a voluntary code of conduct.

While the DRWG was mandated by the UK FCA, the voluntary [Code of Conduct for ESG Ratings and Data Products Providers](#) was designed with international applicability. It was launched in December 2023 and owned by ICMA, who compiles the list of providers signing up to the Code. After indicating their intention to sign up, ESG ratings providers have six months to implement the Code, and ESG data products providers have up to 12 months. At the time of writing, 21 providers have signed up to the code.

Besides the Code of Conduct, HM Treasury confirmed in its 2024 [Spring Budget](#) that it will amend the FCA's remit to regulate ESG ratings providers. The timeline and process for such regulation are still to be announced, alongside key findings of the 2023 consultation conducted by HM Treasury.

Interoperability across policy initiatives

A hand holding a pen over a document, with a large white number 3 overlaid on the bottom right.

3

Interoperability across policy initiatives

Interoperability can support providers in adopting requirements posed by different regulators, while simultaneously ensuring their assessments remain global, useful for the market, and of high quality and integrity.



As financial regulators across the globe introduce codes of conduct and regulations, it is essential to ensure that these policy initiatives remain interoperable with one another and aligned with IOSCO's recommendations, which are considered the global baseline for regulators engaging on this topic. Interoperable policies are crucial for this market given that ESG ratings and data products are cross-border assessments, often conducted by providers operating in multiple locations, and consumed by users worldwide.

Interoperability can support providers in adopting requirements posed by different regulators, while simultaneously ensuring their assessments remain global, useful for the market, and of high quality and integrity. Accountability and transparency are likely to be enhanced, as consistent standards reduce the complexity and costs of monitoring and evaluation measures. Interoperability also reduces the costs of compliance for providers, since alignment across regimes means that multiple competing compliance demands no longer need to be juggled, and due diligence costs for users. Lastly, interoperable policies strengthen the regulatory architecture of the sustainable financial system, as they promote consistency and coherence in policymaking and with global environmental agendas.

Against this backdrop, the following sections investigate the uptake of IOSCO's recommendations by jurisdictions engaging on the provision of ESG ratings and data products. It does so by taking IOSCO's set and subset of recommendations as a baseline for comparison with the articles and provisions adopted by policymakers. Each section covers a specific topic from IOSCO's report and compares how the topic is reflected in the text of the policy initiatives. The analysis also captures cases where a policymaker explicitly expands on or diverges from IOSCO's recommendations. However, because the baseline for the analysis is IOSCO's guidelines, any other topic that regulators may have introduced but that is not covered by IOSCO is beyond the scope of this report.



Policy interventions: voluntary codes of conduct to mandatory regulation

IOSCO Recommendation 1

As previously stated, IOSCO's first recommendation encourages regulators to consider looking more closely at the ESG ratings and data products market. With a subset of four recommendations, IOSCO outlines in further detail the form that policy intervention may take. It suggests that regulators assess whether their current regulatory regimes provide sufficient oversight, and in cases where further policy intervention is needed, IOSCO suggests two approaches.

1. First, where regulators have authority over providers, it proposes a set of requirements focusing on management of conflicts of interest, transparency of methodologies, good governance, and systems and controls.⁶
2. Secondly, IOSCO proposes "regulators could consider whether there are opportunities to encourage industry participants to develop and follow voluntary common industry standards or codes of conduct."⁷



IOSCO Recommendation 1

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.

⁶ See pages 35-36 for further reference of IOSCO. (2021). Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report. Retrieved from <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

⁷ IOSCO. (2021). Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report, p. 36. Retrieved from <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

The table below summarizes the stocktake exercise conducted in the previous section and suggests that the jurisdictions included are at least considering, or already have adopted, IOSCO’s Recommendation 1. It indicates which type of instrument (code of conduct and/or regulation) regulators have adopted or are considering, status at the time of writing, and whether the instrument is voluntary or mandatory in nature.

Table 1. Summary of policy interventions focusing on the provision of ESG ratings and data products adopted by regulators worldwide

Jurisdiction	Introduced by	Instrument	Voluntary/ Mandatory	Status	Date of publication
United Kingdom ⁸	DRWG, mandated by the FCA	Code of conduct	Voluntary	Published	Dec 23
United Kingdom	HMT	Regulation	Mandatory	In progress	N/A
European Union	EU co-legislators	Regulation (new)	Mandatory	In progress	N/A
Hong Kong	VCWG, mandated by SFC	Code of conduct	Voluntary	In progress	N/A
Singapore	MAS	Code of conduct	Voluntary	Published	Dec 23
India	SEBI	Regulation (Amendment to the Credit Ratings Agencies Regulation and Master Circular)	Mandatory	Published	July 23
Japan	FSA	Code of conduct	Voluntary	Published	Dec 22

Findings from Table 1 indicate a diverging approach between the EU co-legislators and SEBI when regulating the provision of ESG ratings. In the case of SEBI, an amendment to the Credit Rating Agencies (CRA) Regulation has been introduced, while in the EU, a new regulatory framework has been proposed despite having a CRA Regulation in effect. This nuance indicates a difference in understanding among regulators on the nature of ESG ratings and how to address them. Definitions play a crucial role in this regard to ensure that there is a clear demarcation and differentiation of credit ratings that may include ESG factors from ESG ratings. CDP’s report “Data for Public Good” explores these differences in greater depth.⁹

⁸ While the creation of the DRWG was mandated by the UK FCA, the Code of Conduct issued by has been considered international in its scope and applicability. ICMA compiles

⁹ CDP. (2023). “Data for Public Good: Steering the Role of ESG Ratings and Data Products Providers,” p. 11. Retrieved from: <https://www.cdp.net/en/policy-briefings/downloads/7242>



Definitions of ESG ratings and data products

In the sub-recommendations proposed to regulators, IOSCO also recommends that regulators “support voluntary industry-led development of standardized definitions for the terminology used and referred to by ESG rating and data products providers.” Where policy initiatives are being or already have been adopted, discussions around the definitions of ESG ratings, ESG scores, and other ESG data products have taken place. However, as Table 2 indicates, these definitions have not been standardized across policy initiatives.

IOSCO’s definitions of ESG ratings and ESG data products have served as a starting point for regulators. Table 2 shows that key components of IOSCO’s definition of ESG ratings have remained present in the definitions employed by codes of conduct and regulatory frameworks. The use of a ranking system is a common feature shared across definitions, but policymakers have thus far failed to provide clarity on what is meant by this term. Policymakers have also included ESG scores and ESG opinions as part of ESG ratings, but with the exception of the European Union, they have not offered a definition for ESG scores and ESG opinions.

Additionally, there is a cross-cutting understanding that ESG ratings consider an entity’s exposure to risk, as mentioned in IOSCO’s definition. However, except for JFSA and HMT, most policy initiatives have expanded on this by including *impact on society and the environment*. Nevertheless, as shown in Table 2, most definitions have also employed an additional disclaimer stating that an ESG rating could be considered so irrespective of whether it is labelled as such.

IOSCO’s 2021 report does not provide a definition for an ESG data product. Instead, it covers three examples (raw data, controversies alerts and screening tools) that are commonly seen as data products or elements of them. Thus far, there are only two specific definitions of ESG data products introduced by policymakers: the first introduced by the DRWG and duplicated verbatim in the VCWG draft, and the second introduced by MAS. Both definitions acknowledge that ESG data products can have a specific or holistic environmental, social and governance focus about a similar group of entities or financial instruments.

Like most of the ESG ratings definitions, policymakers have also included a disclaimer that an ESG data product can be considered so regardless of whether it has been labelled as such. The MAS definition is more specific than DRWG/VCWG’s, as it provides a minimum requirement of including collection and/or aggregation of raw data to the estimations. It also contains a series of examples that are scoped out of the definition, including credit ratings and financial benchmarks.

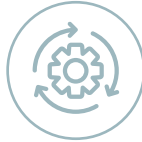
...regulators support voluntary industry-led development of standardized definitions for the terminology used and referred to by ESG rating and data products providers.

IOSCO

Table 2. Comparison of ESG ratings and data products definitions introduced through codes of conduct and regulatory frameworks

	ESG ratings	ESG scores	ESG data products
IOSCO Final Reportⁱ	The term “ESG ratings” can refer to the broad spectrum of rating products in sustainable finance and include ESG scorings and ESG rankings. ESG ratings, rankings and scorings serve the same objective, namely the assessment of an entity, an instrument or an issuer exposure to ESG risks and/or opportunities. However, they differ in the resources and methodologies used. ESG scores usually result from quantitative analysis whereas ESG ratings are produced using both quantitative models and qualitative analysis and are accompanied by analyst reports to explain the ratings. On that basis, ratings may therefore incorporate an element of analytical judgement or opinion. Ratings providers select key issues for each ESG component and assess the exposure to these sustainability risks and the way in which they are managed. ESG ratings, scorings, and rankings are usually not defined in absolute terms (although some are) but are generally assessments relative to a peer group	<i>Does not provide a definition for the term but includes ESG scores in the definition of ESG ratings.</i>	ESG data products providers have developed a wide range of products and services in order to meet investors’ growing demand for ESG-related information. Feedback from providers suggests the potential for innovation remains high. Common ESG data products are explained below: <ul style="list-style-type: none"> Raw data is gathered by ESG data products providers from companies’ public disclosures or from other publicly available information or collected through questionnaires; if raw data is not available, corresponding data points can be approximated. Feedback suggests that all data products derive from either collected or estimated raw data Screening tools assess the exposure of companies, jurisdictions and bonds to ESG risks in order to define a portfolio based on ESG criteria Controversies alerts enable investors to track and monitor behaviours and practices that could lead to reputational risks and affect the company and more broadly its stakeholders. Controversies can also be taken into account in ESG ratings
DRWG Code of Conductⁱⁱ	“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 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”	<i>Does not provide a definition for the term but includes ESG scores in the definition of ESG ratings.</i>	“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”
HMT Consultationⁱⁱⁱ	An assessment regarding one or more environmental, social, and governance factors, whether or not it is labelled as such	<i>Does not provide a definition for the term but may implicitly include ESG scores in the definition of ESG ratings.</i>	<i>Does not provide a definition for the term, but may implicitly include ESG data products in the definition of ESG ratings.</i>
EU Regulatory Proposal^{iv}	‘ESG rating’ means an opinion, a score or a combination of both, regarding a rated item’s profile or characteristics with regard to environmental, social and human rights, or governance factors or exposure to risks or the impact on environmental, social and human rights, or governance factors, that are based on both an established methodology and a defined ranking system of rating categories, irrespective of whether such ESG rating is explicitly labelled as ‘ESG rating’, ‘ESG opinion’ or ‘ESG score’	ESG score’ means an ESG measure derived from data, using a rule-based methodology, and based only on a pre-established statistical or algorithmic system or model, without any additional substantial analytical input from an analyst.	<i>Does not provide a definition for the term.</i>
MAS Code of Conduct^v	“ESG rating” means a product that provides an opinion regarding any one or more ESG profile or characteristic of a rating target, that is expressed using an established and defined ranking system of rating categories, [...] where (i) “rating target” means, the subject of an ESG rating which may be an entity, a real estate investment trust, a business trust, or a capital markets product; (ii) “rating category” means –(a) an ordinal rank or score used in an ESG rating (e.g. letters, numbers, words, or any other symbols), to provide a relative measure of performance of a rating target in any one or more ESG profile or characteristic, to that of other rating targets; or (b) an ordinal rank or score used in an ESG rating (e.g. letters, numbers, words, or any other symbols), to provide an absolute measure of performance of a rating target in any one or more ESG profile or characteristic;(iii) “environmental, social or governance profile or characteristic” includes but is not limited to exposure to climatic or environmental, societal and governance risks; and impact on the environment and society; and(iv) “entity” has the same meaning as in section 2(1) of the Securities and Futures Act 2001	<i>Does not provide a definition for the term but includes scores in the definition of ESG ratings.</i>	“ESG data product” means the broad spectrum of data products that entail, at minimum, collection and/ or aggregation of raw data to which estimations, calculations or analysis has been added, and that are marketed as providing either a specific or holistic Environmental, Social, or Governance (“ESG”) focus on an entity, a real estate investment trust, a business trust or a capital markets product’s environmental, social or governance profile or characteristics, but does not include: (a) solely raw data or aggregated raw data which does not entail added estimations, calculations or analysis; (b) an ESG rating; (c) a credit rating produced by a credit rating agency (including any ESG related assessments that are created by the credit rating agency in relation to the analysis of, or as an output of, the credit rating); (d) a proprietary ESG data product produced for use/consumption within the provider’s own corporate group of affiliated companies and is not offered to third parties; (e) recommendation(s) related to ESG matters provided by proxy advisors; (f) research analyses or research reports concerning any investment product that is issued or promulgated by a licensed or exempt financial adviser under the Financial Advisers Act 20014 ; or (g) financial benchmarks, as defined by the International Organisation of Securities Commissions, where (i) “environmental, social or governance profile or characteristic” includes but is not limited to exposure to climatic or environmental, societal and governance risks; and impact on the environment and society; and (ii) “entity” has the same meaning as in section 2(1) of the Securities and Futures Act 2001
SEBI CRA Amendment/ Master Circular^{vi}	“environmental, social, and governance ratings”, or “ESG ratings” means the rating products that are marketed as opinions about an issuer or a security, regarding its ESG profile or characteristics or exposure to ESG risk, governance risk, social risk, climatic or environmental risks, or impact on society, climate and the environment, that are issued using a defined ranking system of rating categories, whether or not these are explicitly labelled as “ESG ratings”	<i>Does not provide a definition for the term.</i>	<i>Does not provide a definition for the term.</i>
JFSA Code of Conduct	<i>Does not provide a definition for the term.</i>	<i>Does not provide a definition for the term.</i>	<i>Does not provide a definition for the term.</i>
VCWG Draft Code of Conduct^{vii}	“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 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”	<i>Does not provide a definition for the term but includes ESG scores in the definition of ESG ratings.</i>	“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”

i. IOSCO Final Report, p. 9-10 ii. DRWG Code of Conduct, p. 4 iii. HMT Consultation, Item 2.2, p.15 iv. Article 3(1), (2), and (3) of Regulatory Proposal from 9 February 2024 v. MAS Code of Conduct, p. 2-3 vi. Article 28B(b) of CRA Amendment vii. VCWG Code of Conduct, draft 22 April 2024, p. 4-5



Methodologies of ESG ratings and data products: transparency and quality control

IOSCO Recommendations 2 and 5

IOSCO's recommendations 2 and 5 touch directly on the methodologies used to produce ESG ratings and data products. Recommendation 2 focuses on the adoption of written procedures that ensure high-quality ESG ratings with transparent and defined methodologies. Recommendation 5 builds on the transparency principle by focusing on the necessary elements to be disclosed by providers with respect to their businesses and product offerings.



IOSCO Recommendation 2

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.



IOSCO Recommendation 5

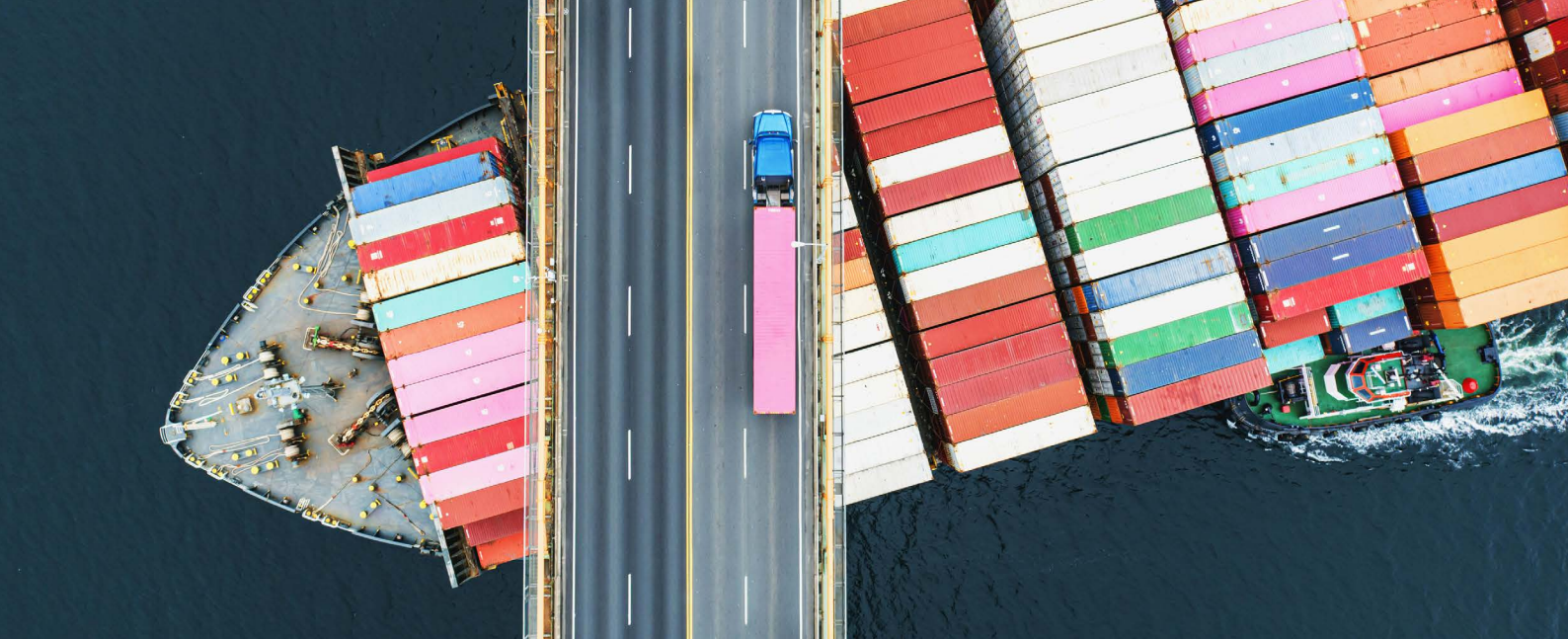
ESG ratings and data products providers could consider making adequate levels of public disclosure and transparency a priority for their ESG ratings and data products, including their methodologies and processes to enable the users of the product to understand what the product is and how it is produced, including any potential conflicts of interest and while maintaining a balance with respect to proprietary or confidential information, data and methodologies.

Based on the analysis provided in Table A of the Appendix, it is possible to observe a positive uptake of IOSCO's recommendations 2 and 5 across policy initiatives. Table A shows, for example, that the language adopted by IOSCO in recommendation 2 to "ensure the issuance of high quality ESG ratings and data products"¹⁰ is reflected in the texts of the policy initiatives analyzed. Minor nuances are identified in Japan's code of conduct, which recommends providers to "ensure the quality of ESG evaluation and data they provide,"¹¹ as well as in the EU regulation, which requires providers in Article 14(11) to "adopt all necessary measures to ensure that the information they use in assigning ESG ratings is of sufficient quality."¹²

¹⁰ IOSCO. (2021). Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report, p. 37. Retrieved from <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

¹¹ Japan Financial Services Agency. (2022). The Code of Conduct for ESG Evaluation and Data Providers, p. 20. Retrieved from <https://www.fsa.go.jp/news/r4/singi/20221215/02.pdf>.

¹² Council of the European Union. (2024). Proposal for a Regulation of the European Parliament and the Council on the transparency and integrity of Environmental, Social and Governance (ESG) ratings activities, and amending Regulation (EU) 2019/2088 – Confirmation of the final compromise text with a view to agreement: legal text. Interinstitutional File 2023/0177 (COD). Retrieved from <https://data.consilium.europa.eu/doc/document/ST-6255-2024-INIT/en/pdf>.



When it comes to the subset of recommendations proposed by IOSCO for recommendation 2, Table A indicates a good uptake from policymakers with some nuances or additions. For example, IOSCO recommends providers to conduct a regular review of their methodologies, but it does not propose a specific frequency for this review. CoCs have followed IOSCO's approach by leaving it flexible, while regulatory frameworks proposed by SEBI and the EU state that reviews should occur at least annually.

Similarly, IOSCO recommends that providers maintain internal records to support their products, but it does not specify for how long such records should be kept. The text found in the DRWG/VCWG codes of conduct follow a similar approach. In contrast, the EU and SEBI require records to be kept for at least five years, while the MAS Code of Conduct recommends that providers keep them for at least six. Japan's CoC does not formalize a recommendation on this topic but mentions in the 'concept' section of Principle 1 that records should be kept.¹³

IOSCO also recommends that the personnel involved in determining ESG ratings and data products are professional, competent, and of high integrity. Findings in Table A indicate that all policy initiatives have reflected this recommendation in their texts, however, regulatory frameworks have gone further in detailing how to operationalize this recommendation and apply it to their local context. For example, Article 28E(m)(v) from SEBI's CRA Amendment requires an ESG rating provider to have a minimum number of employees specialized in governance, sustainability, social impact and social responsibility, data analytics, finance, information technology, and law. In the case of the EU, even though Article 24(1)(a) employs similar language to IOSCO's recommendation, the regulation provides additional specific guidance on implementing the recommendation. In Article 16, it puts forward a set of requirements for rating analysts working on the provision of ESG ratings.



Art 16(1) from the EU ESG ratings regulatory proposal

ESG rating providers shall ensure that rating analysts, employees and any other natural person under their control or whose services are placed at their disposal [...] are appropriately trained and have the knowledge and experience that is necessary for the performance of the duties and tasks assigned, including, where appropriate, a sufficient understanding of potential material financial risk to the rated entity and potential material impact of the rated entity on the environment and on society in general.¹⁴



¹³ Japan Financial Services Agency. (2022). The Code of Conduct for ESG Evaluation and Data Providers, p. 22. Retrieved from <https://www.fsa.go.jp/news/r4/singi/20221215/02.pdf>.

¹⁴ Council of the European Union, 2024, Article 16(1).



Our analysis indicates that CoCs and regulatory frameworks have reflected the principle of transparency in their recommendations and/or requirements. Nevertheless, some key differences have been identified.



IOSCO's recommendation 5 also focuses on the methodologies used in producing ESG ratings and data products, but it introduces a subset of recommendations suggesting which elements of the methodology should be publicly disclosed. Our analysis indicates that CoCs and regulatory frameworks have reflected the principle of transparency in their recommendations and/or requirements, as shown in Table B of the Appendix. Nevertheless, some key differences have been identified between the approaches adopted by SEBI and the EU.

In the case of the EU, the disclosure requirements introduced by the regulation are more ambitious than those recommended by IOSCO and by CoCs. Through Annex III of the regulation, the EU requires providers to disclose to the public, inter alia, information on whether and how the methodologies are based on scientific evidence; whether artificial intelligence has been used in the process; to indicate whether the rating assess risks, impacts or both; the rating's scope (ie, whether it covers individual or aggregated E, S, and/or G factors); and whether it is aligned with relevant international agreements, including the Paris Agreement.¹⁵ Moreover, Annex III also differentiates minimum disclosure requirements to the public from those that must be available for users of ESG ratings and rated entities. For the latter audience, the level of granularity required through the regulation is even greater.¹⁶

In contrast to the EU regulation which adds on to IOSCO's disclosure recommendations, SEBI's approach diverges from other policymakers. SEBI's regulatory framework introduces minimum requirements for the methodology that must be followed by providers. Article 5 of SEBI's Master Circular outlines the minimum criteria, including specific factors and datapoints (indicators), that compose an ESG Rating.¹⁷ At the same time, Article 28L(f) of the CRA Amendment reflects IOSCO's recommendation by requiring providers to "adopt and implement written policies and procedures to ensure the issuance of high quality ESG ratings (...) using transparent and defined methodologies."¹⁸

Drawing from CDP's 2023 report "[Data for Public Good: Steering the Role of ESG Ratings and Data Products Providers](#)," the table below provides an updated list of the transparency recommendations and/or requirements put forward by policymakers to ESG ratings and data products providers with respect to their methodologies. Aligned with findings from 2023, the requirements introduced by regulatory frameworks remain more detailed than those posed by CoCs.

¹⁵ Council of the European Union, 2024, Annex III.

¹⁶ Ibid.

¹⁷ Securities and Exchange Board of India (Master Circular for ESG Ratings Providers), 2023. Article 5. Retrieved from <https://www.sebi.gov.in/legal/master-circulars/jul-2023/master-circular-for-esg-rating-providers-erps-73856.html>.

¹⁸ Securities and Exchange Board of India (Credit Rating Agencies) (Amendment) Regulations, 2023. Article 28L(f). Retrieved from https://www.sebi.gov.in/legal/regulations/jul-2023/securities-and-exchange-board-of-india-credit-rating-agencies-amendment-regulations-2023_73451.html

Table 3 summarizes key elements recommended/required by policymakers to be disclosed by ESG ratings and data products providers. As shown in the table, the EU regulatory framework is the most ambitious, as it asks for additional information such as whether the ESG rating considers targets and objectives of international agreements (eg Paris Agreement), and whether and how methodologies are based on scientific evidence.

Table 3. Summary of key elements recommended/required by policymakers to be disclosed by ESG ratings and data products providers

Disclosure requirements	IOSCO Final Report	DRWG Code of Conduct	JFSA Code of Conduct	MAS Code of Conduct	SEBI CRA Amendment/ Master Circular	EU Regulatory Proposal	Hong Kong VCWG Draft Code of Conduct
Measurement objective (Purpose)	X	X	X	X		X	X
Materiality					X	X	
Criteria used to assess the entity	X	X	X	X	X	X	X
Relative weighting of each criteria and/or categories	X	X	X	X	X	X	X
Key performance indicators (KPIs)	X	X	X	X	X	X	X
Information whether rating is expressed in absolute or relative values						X	
Sources of data	X	X	X	X	X	X	X
Scope of entities assessed (Industry classification)	X	X	X	X		X	X
Time horizon of the assessment	X	X	X	X		X	X
Use of industry averages, estimations or other methodologies	X	X	X	X	X	X	X
Updates to the methodology	X	X	X	X	X	X	X
Frequency of updates to the methodology					X	X	
Whether and how methodologies are based on scientific evidence						X	
Rating scope (Aggregated or specific E, S, or G)						X	
Use of AI in data collection or rating/scoring process						X	
Limitations in data sources and methodologies				X	X	X	
Policies to mitigate conflicts of interest	X	X	X	X	X	X	X
General criteria for establishing fees for clients	X	X		X	X	X	X
Whether the rating takes into account targets and objectives of international agreements						X	



Management of conflicts of interest

IOSCO Recommendations 3 and 4

Every code of conduct and regulatory framework analyzed addresses conflicts of interest (COIs) associated with the provision of ESG ratings and data products. All initiatives propose the adoption and implementation of written policies and procedures to ensure that providers' decisions are "independent, free from political or economic interference, and appropriately addressing potential conflicts of interest," as stated in IOSCO's Recommendation 3.¹⁹



IOSCO Recommendation 3

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.



IOSCO Recommendation 4

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 providers' operations.

IOSCO's fourth recommendation requires providers to 'identify, avoid, manage, mitigate' and 'disclose' potential COIs.²⁰ The same language can be identified in the codes introduced by MAS, DRWG, and VCWG, as well as in the regulatory frameworks introduced by SEBI and the EU. However, in the case of JFSA, the code does not make an explicit recommendation for providers to disclose conflicts of interest per se. In Principle 3.1, JFSA's code focuses its recommendation on "establishing and disclosing effective policies to avoid, or appropriately manage and reduce the risk of, the conflict of interest."²¹ The approach taken by Japan thus focuses only on explaining the controls and processes in place to prevent, mitigate or manage potential conflicts of interest, whereas other jurisdictions require disclosure of the potential COI and evidence of their management in addition to provision of policy documents.

¹⁹ IOSCO. (2021). Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report, p. 38. Retrieved from <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

²⁰ Ibid.

²¹ Japan Financial Services Agency. (2022). The Code of Conduct for ESG Evaluation and Data Providers, p. 25. Retrieved from <https://www.fsa.go.jp/news/r4/singi/20221215/02.pdf>.

IOSCO's subset of recommendations to manage COI also addresses reporting lines and staff compensation arrangements for companies providing ESG ratings and data products. According to the analysis indicated in Table C of the appendix, the guidance introduced by IOSCO has been partially reflected across the policy initiatives studied.

IOSCO recommends that staff should not be compensated or evaluated "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 for."²² It also proposes that providers disclose the "nature of the compensation arrangements or any other business or financial

relationships that exist with an entity for which the ESG ratings and data products provider ESG ratings or data products."²³ The codes issued by DRWG, VCWG, and MAS incorporate these recommendations into their text, while JFSA does not address these recommendations explicitly. In the case of SEBI, the regulation explicitly mentions in Article 28K(j) that providers should disclose the general nature of compensation arrangements with clients. It also goes further by requiring providers to indicate whether the ratings issued were solicited or unsolicited.²⁴ Like SEBI, MAS and JFSA also expand on IOSCO's recommendations and include in their codes specific requirements (See Principles 3.7 and 3.8 for JFSA and Principle 3 for MAS) for providers operating issuer-pay and subscriber-pay models.



JFSA, SEBI, and the EU also expand on IOSCO's recommendations for management of conflicts of interest by addressing other services offered by providers, such as consulting.

JFSA, SEBI, and the EU also expand on IOSCO's recommendations for management of conflicts of interest by addressing other services offered by providers, such as consulting. Japan's CoC recommends providers to establish "a firewall between sales and evaluation divisions,"²⁵ as an example of how providers should take appropriate measures to ensure that another business relationship with a company subject to ESG evaluation does not affect the outcome of the ESG rating or data product. In the case of SEBI and the EU, the requirements are even stricter. Article 28K(q) of SEBI's CRA Amendment prohibits providers from providing consulting or advisory services relating to any ESG topics.²⁶ Similarly, Article 15 of the EU regulation also prohibits providers from offering, inter alia, consulting and benchmarking services.²⁷ In addition, on Recital 22 of the regulation, the EU provides a definition for 'consulting services' and makes a specific call out of proxy advisory services.²⁸

22 IOSCO. (2021). Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report, p. 38-39. Retrieved from <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

23 Ibid.

24 Securities and Exchange Board of India (Credit Rating Agencies) (Amendment) Regulations, 2023. Article 28K(j).

25 Japan Financial Services Agency. (2022). The Code of Conduct for ESG Evaluation and Data Providers, p. 25. Retrieved from <https://www.fsa.go.jp/news/r4/singi/20221215/02.pdf>

26 Securities and Exchange Board of India (Credit Rating Agencies) (Amendment) Regulations, 2023. Article 28K(q).

27 Council of the European Union, 2024, Article 15.

28 Council of the European Union, 2024, Recital 22.



Systems and controls: confidentiality

IOSCO Recommendation 6

Confidentiality is one of the topics covered within IOSCO's recommendations on systems and controls.



IOSCO Recommendation 6

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.²⁹

IOSCO's recommendation focusing on confidentiality has been streamlined across all codes of conduct and regulations, but with some nuances.

As indicated in Table D of the appendix, this recommendation has been streamlined across all codes of conduct and regulations, but with some nuances.

In its Principle 5, Japan's CoC adopts a broader scope than others by not focusing on non-public information received from or communicated to providers "by any entity, or its agents, related to their ESG ratings and data products."³⁰ Unlike other CoCs that have incorporated the same language as IOSCO's recommendation, JFSA covers non-public information "obtained in the course of business"³¹ without specifying by or from whom.

Further, JFSA's CoC also expands on IOSCO's recommendation when it introduces, in Principles 5.1 and 5.2, the word "disclosing" to "establishing, **disclosing**, and implementing the policies and procedures..." to protect confidential information. IOSCO, DRWG, VCWG, and MAS recommend the adoption and implementation of written policies, procedures, and mechanisms to address and protect non-public information, but they do not explicitly recommend providers to publicly disclose them. This may be because information on how non-public data is treated should be addressed in any commercial arrangements between providers and rated entities.

It is also worth noting that in the case of Singapore's CoC, while the first part of the recommendation introduced in Principle 5(a) aligns with IOSCO, the second part builds on it by adding instructions on situations in which non-public information cannot be shared, unless otherwise permitted by a confidentiality agreement.³²

²⁹ IOSCO. (2021). Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report, p. 40. Retrieved from <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

³⁰ Japan Financial Services Agency. (2022). The Code of Conduct for ESG Evaluation and Data Providers, p. 32. Retrieved from <https://www.fsa.go.jp/news/r4/singi/20221215/02.pdf>.

³¹ Ibid.

³² Monetary Authority of Singapore. (2023). Annex C: Singapore Code of Conduct for ESG Rating and Data Product Providers, p. 11. Retrieved from <https://www.mas.gov.sg/-/media/mas/regulations-and-financial-stability/regulations-guidance-and-liaising/financial-advisers/consultation-paper/annex-c-code-of-conduct-for-esg-rating-and-data-product-providers.pdf>.

Systems and controls: Information gathering process and communication



IOSCO Recommendations 8 & 9

IOSCO's Recommendations 8 and 9 focus on systems and controls that could be adopted to improve providers' information gathering processes and communication with assessed entities.



IOSCO Recommendation 8

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.



IOSCO Recommendation 9

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.

Recommendation 8 focuses on improving information gathering processes to lead to more efficient information procurement for both rating and rated entities. So far, all CoCs have adopted this recommendation with very similar language. Regulatory frameworks also integrate this recommendation into their requirements, but with differences in how such processes are streamlined. For example, Article 14(6) of the EU regulation requires the adoption of sound administrative and accounting procedures, as well as effective control and safeguard arrangements for information processing systems.³³

IOSCO's Recommendation 9 and its subset of recommendations focus on improving communication between providers and entities covered by their assessments while maintaining the "objectivity" of such assessments.³⁴ However, no clear definition of objectivity is provided. Some nuance in this language can be observed in the DRWG/VCWG text, which refers to "independence and integrity" instead. These two codes also include "users" in the scope of entities allowed to flag any issues associated with an ESG rating and/or data product to its provider.^{35,36}


IOSCO also recommends that providers communicate with rated entities to inform them in advance when information to generate ESG ratings and data products will be requested. As shown in Table E, this suggestion has been integrated across all policy initiatives. In addition, all CoCs have followed IOSCO's sub-recommendation for providers to include in their data requests pre-inputted information already available from public sources or from previous submissions. The EU and SEBI differ from the other regulators in this respect by not including any mention of this recommendation in their regulations.

³³ Council of the European Union, 2024, Article 14(6).


³⁴ IOSCO. (2021). Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report, p. 41. Retrieved from <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

³⁵ ESG Data and Ratings Working Group (DRWG). (2023). Code of Conduct for ESG Ratings and Data Products Providers, p. 11. Retrieved from <https://www.icmagroup.org/assets/DRWG-Code-of-Conduct-for-ESG-Ratings-and-Data-Products-Providers-v3.pdf>.

³⁶ ICMA-VCWG. (2024). Draft Hong Kong Code of Conduct for ESG Ratings and Data Products Providers for Consultation, p. 11. Retrieved from <https://www.icmagroup.org/assets/documents/Sustainable-finance/Codes-of-conduct/ICMA-VCWG-Draft-Hong-Kong-Code-of-Conduct-for-ESG-Ratings-and-Data-Products-Providers-For-Consultation-English-version-May-2024-170524.pdf>.



Aligned with IOSCO, DRWG/VCWG, MAS and JFSA recommend the inclusion of a contact point with whom covered entities can interact to address any queries regarding the ESG rating/data product.



Aligned with IOSCO, DRWG/VCWG, MAS and JFSA recommend the inclusion of a contact point with whom covered entities can interact to address any queries regarding the ESG rating/data product. In the case of Japan, since the text in Principle 6.2 does not mention “rated companies” like other CoCs, this may indicate an expansion of the scope of entities eligible to submit an inquiry to any company. In the case of SEBI and the EU, they both have different approaches to the CoCs. SEBI requires providers to publish the contact information of the rating analyst within their requirements of disclosure for the ‘rating rationale’, but it does not specify whether this contact should be the channel for queries. In the case of the EU, it dedicates Article 18 to complaints handling mechanisms, and proposes that contact details are made available by the rating provider so that rated entities can raise any issues, including questions about elements of the ESG ratings, with the provider.

IOSCO also recommends that providers inform covered entities of the ‘principal grounds’ on which an ESG rating or data product is based before its publication,³⁷ but it leaves the term ‘principal grounds’ undefined. To address this lack of clarity, both VCWG and DRWG codes replace this term with ‘principal categories of data’ on which the ESG rating is based. JFSA also replaces ‘principal grounds’ by recommending providers to inform the “essential information sources of the evaluation and data.”³⁸ The MAS CoC employs the same term used by IOSCO (‘principal grounds’) in its Principle 7(b). However, unlike IOSCO and other CoCs, the MAS allows a provider to inform covered entities before **or after** the publication of an ESG rating or data product.³⁹



Regulators have proposed different approaches for providers to prove their compliance with codes of conduct and/or regulatory frameworks.



Proof of compliance

Regulators have proposed different approaches for providers to prove their compliance with codes of conduct and/or regulatory frameworks. So far, jurisdictions that have introduced CoCs have asked providers to issue public statements (for example, on their websites) informing their interest in “endorsing” (according to JFSA terminology), “signing up” (DRWG/VCWG terminology), or “adopting” (MAS terminology) a code of conduct. In addition, regulators have also asked providers to publish a statement explaining their approach and the status of implementation of the respective CoCs.

37 IOSCO. (2021). Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report, p. 41. Retrieved from <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

38 Japan Financial Services Agency. (2022). The Code of Conduct for ESG Evaluation and Data Providers, p. 34. Retrieved from <https://www.fsa.go.jp/news/r4/singi/20221215/02.pdf>.








39 Monetary Authority of Singapore. (2023). Annex C: Singapore Code of Conduct for ESG Rating and Data Product Providers, p. 12. Retrieved from <https://www.mas.gov.sg/-/media/mas/regulations-and-financial-stability/regulations-guidance-and-licensing/financial-advisers/consultation-paper/annex-c-code-of-conduct-for-esg-rating-and-data-product-providers.pdf>.

Policymakers may have adopted different approaches towards proof of compliance [...]. this lack of consistency may add a significant level of complexity [...].

As Table 4 shows, JFSA and the DRWG have not provided a specific format or template for providers to indicate their compliance with the CoCs. However, in the cases of MAS and VCWG, both codes of conduct are followed with self-attestation documents that equip providers with specific formats for proof of compliance. In the cases of SEBI and the EU, providers are required to apply for accreditation with the relevant regulator (SEBI/ ESMA). However, the requirements for this process differ in each of the two jurisdictions.

Policymakers may have adopted different approaches towards proof of compliance given that IOSCO does not provide specific recommendations or guidance on this topic. However, this lack of consistency may add a significant level of complexity for providers to report on their compliance as well as for market participants, including asset managers, to conduct their due diligence on providers and their respective product, as per IOSCO’s recommendation 7.⁴⁰

Table 4. Mechanisms for providers to indicate their compliance with codes of conduct and regulatory frameworks according to the policy initiatives listed below

Proof of compliance	Instrument
IOSCO Final Report	 N/A
DRWG Code of Conduct	 No specific format. Publish statement explaining the provider's approach to implementation of the Code and inform ICMA about the adoption of the Code.
JFSA Code of Conduct	 No specific format. Publication on the provider's website explaining the specific status of compliance with each of the principles and guidelines.
MAS Code of Conduct	 Self-attestation checklist provided by MAS. Publish checklist on the provider's website and inform ICMA about the adoption of the Code.
SEBI CRA Amendment	 Registration with regulator.
EU Regulatory Proposal	 Registration with regulator.
Hong Kong VCWG Draft Code of Conduct	 Self-attestation document provided by Hong Kong VCWG. Information still pending regarding where to publish/submit self-attestation document and where/who to inform about adoption of the Code.

40 IOSCO. (2021). Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report, p. 40. Retrieved from <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

Conclusions and recommendations

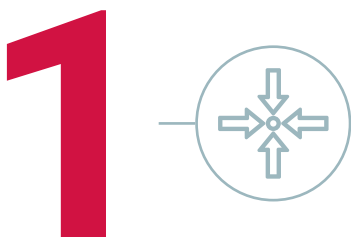
4

Conclusions and recommendations

Since IOSCO's publication of the 2021 report, six jurisdictions have mobilized efforts to translate its recommendations into policy initiatives. Japan, Hong Kong, Singapore, and the United Kingdom first introduced codes of conduct, with the possibility of considering regulation in the years to follow. India and the European Union did not take such a gradual approach, instead introducing regulatory frameworks right away.

The analysis in this report indicates that eight out of the 10 recommendations made by IOSCO have been integrated into the codes of conduct and regulations previously mentioned. These eight recommendations, as well as their subset of recommendations, have been adopted by policymakers in a way that indicates a good level of alignment across jurisdictions. The most notable variation has been in the case of SEBI, whose regulation takes a different approach towards methodological requirements. Other nuances have been observed in the EU regulation, as well as in the multiple codes of conduct studied. In many cases, additional requirements have been introduced, such as on separating rating/scoring from consulting activities, as seen in Japan's CoC as well as in the EU regulation.

Since only six jurisdictions have introduced policy initiatives on the provision of ESG ratings and data products, it is expected that other governments will follow suit in due course. It is also expected, as announced by Japan, Singapore, and the UK, that in cases where voluntary codes of conduct have been introduced, regulation will be introduced in future years. With this in mind, we make the following recommendations for policymakers:



Remain aligned with IOSCO's recommendations

While this report indicates a good uptake of IOSCO's recommendations, it only covers the six jurisdictions which have already introduced policy initiatives. The risk of fragmentation remains significant since many other governments may follow suit. Policymakers should remain aligned with IOSCO's recommendations and use it as the global baseline for any policy initiative. This is crucial to securing the interoperability of these initiatives (essential given the global nature of this market), reduce the cost and complexity of attaining compliance, and facilitate due diligence processes for users of ESG ratings and data products.

2



Agree on definitions

Policymakers should ensure alignment across their definitions of ESG ratings and data products. IOSCO’s definition could serve as a baseline for them. **Policymakers should ensure that specific terms used in definitions are given sufficient explanation,** such as ‘ESG score,’ ‘ESG opinion,’ and ‘defined ranking system.’ Defining these terms clearly will reduce market confusion and ensure that only the appropriate and intended products are scoped into CoCs and/or regulatory frameworks. Policymakers should also explicitly clarify in the definitions whether an ESG rating, score, opinion and data product cover holistic ESG assessments or whether it considers single environmental, social, or governance assessments as well. **They should also demarcate and differentiate ESG ratings from credit ratings clearly,** and where possible, consider introducing separate policy instruments for ESG ratings and credit ratings. **Policymakers should also offer a clear definition of “ESG data products”** and a clear demarcation to differentiate it from “ESG ratings,” as well as to reduce confusion and misinterpretation of the scope of regulatory frameworks and codes of conduct. In this regard, policymakers could improve IOSCO’s definition by moving away from examples of data products and instead focusing on determining what constitutes an ESG data product.

3



Maintain transparency of methodologies

Policy initiatives should reflect IOSCO’s recommendations on transparency of methodologies. The recommendations and subset of recommendations introduced by IOSCO should be viewed by policymakers as the minimum baseline to be incorporated by their codes of conduct and/or regulatory frameworks. **If applicable, policymakers should introduce additional disclosure requirements, but refrain themselves from adopting any approach that contradicts IOSCO’s recommendations. Policymakers should also refrain from interfering in the design and architecture of such methodologies.** ESG ratings and data products providers should remain free to create methodologies according to multiple research frameworks, market demands, and insight needs.

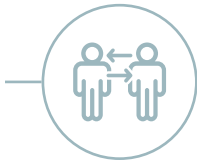
4



Consider IOSCO's recommendations 7 and 10

This research has shown that eight of the 10 recommendations introduced by IOSCO have been considered by policymakers thus far, with Recommendations 7 and 10 absent from policy initiatives. These recommendations focus, respectively, on market participants and rated entities. **Policymakers should ensure the uptake of these recommendations and reflect on which policy instruments are most suitable to enacting these recommendations.** Policymakers should also determine whether specific codes of conduct for users are appropriate, or whether guidelines addressing users should be incorporated alongside recommendations for providers of ESG ratings and data products. Similarly, **policymakers should ensure that their sustainable finance policies reflect IOSCO's recommendation 10 on streamlining disclosure processes, as well as ensuring they are aligned with other regulatory frameworks on mandatory corporate sustainability disclosure.**

5



Create a reciprocity system

With the rise of interoperable, IOSCO-aligned policy initiatives, **policymakers should consider developing a reciprocity system that would allow ESG ratings and data products providers to indicate their compliance with multiple codes of conduct and regulatory frameworks at once.** This would reduce compliance costs for providers and increase their efficiency in reporting their compliance against multiple initiatives on ESG ratings and data products. It would mean that only one set of common compliance requirements must be implemented rather than having to juggle competing compliance demands made by different regulators. Likewise, a reciprocity system would help users of ESG ratings and data products in their due diligence processes (as recommended by IOSCO), as it would make it easier for customers to identify whether providers meet local regulatory requirements even if registered with a regulatory body based in another jurisdiction. This system would also help policymakers ensure that providers and users remain compliant with the requirements introduced by their policy initiatives. In instances where registration with a local financial market regulator is needed, policymakers should consider whether such proof of registration confirms compliance with other codes of conduct and regulations covering ESG ratings and data products as well. A suggested first step towards designing a reciprocity system has been included in the Appendix of this report. By examining which articles and provisions are interoperable across different regulations, **CDP aims to inspire policymakers to develop a tool to facilitate interoperability across regulations and codes of conduct, as well as to support users and providers navigating this nascent regulatory landscape.**

Glossary & Bibliography



5

Glossary

CoC: Code of conduct

COI: Conflict of interest

DRWG: ESG Data and Ratings Working Group, mandated by the UK FCA

ESG: Environmental, Social and Governance

ESMA: European Securities and Markets Authority (ESMA)

EU: European Union

FCA: Financial Conduct Authority

FIs: Financial institutions

HMT: His Majesty's Treasury

ICMA: International Capital Market Association

IOSCO: International Organization of Securities Commissions

JFSA: Japan's Financial Services Agency

MAS: Monetary Authority of Singapore

MEP: Member(s) of the European Parliament

SEBI: Securities and Exchange Board of India

SFC: Securities and Futures Commission of Hong Kong

UK: United Kingdom

VCWG: The Hong Kong ESG and Data Products Providers Voluntary Code of Conduct Working Group

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Appendix

6



Table A

Comparative analysis of recommendations/requirements introduced by policymakers focusing on the methodology of ESG ratings and data products

Please note the content of this table is taken in verbatim from articles and provisions of regulatory proposals and codes of conduct.

IOSCO Final Report	DRWG Code of Conduct	JFSA Code of Conduct	MAS Code of Conduct	SEBI CRA Amendment/ Master Circular	EU Regulatory Proposal	Hong Kong VCWG Draft Code of Conduct
Recommendation 2 — 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>Principle 2.1 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</p> <p>Action 2.4 (A) publicly disclosed data sources, where possible, and other information sources, where necessary</p>	Principle 1 – ESG evaluation and data providers should strive to ensure the quality of ESG evaluation and data they provide. The basic procedures necessary for this purpose should be established	Principle 1 – The ESG Rating and Data Product Provider should adopt and implement written policies and procedures designed to ensure the issuance of high quality ESG rating and data products based on publicly disclosed data sources where possible, and other information sources where necessary, using transparent and defined methodologies	Article 28L (f) adopt and implement written policies and procedures to ensure the issuance of high quality ESG ratings based on publicly available information, and if such information is not available publicly, then rely on other information sources using transparent and defined methodologies	Article 14 (11) ESG rating providers shall adopt all necessary measures to ensure that the information they use in assigning ESG ratings is of sufficient quality and from reliable sources. ESG rating providers shall clearly and explicitly state that their ESG ratings are their own opinion	<p>Principle 2.1 – 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</p> <p>Action 2.4 (A) publicly disclosed data sources, where possible, and other information sources, where necessary</p>
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	Action 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	Principle 1.1 – For formulating and providing ESG evaluation and data, establishing necessary procedures to analyze in detail information that can be reasonably obtained	Principle 1(a) – adopt and implement written policies and procedures to ensure that the ESG rating and data products that it prepares are based on a thorough analysis of all relevant information available to it		Article 14 (4) ESG rating providers shall adopt and implement written policies and procedures that ensure that their ESG ratings are based on a thorough analysis of all information available to them that is relevant to their analysis in accordance with their rating methodologies	Action 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
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	Action 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	Principle 1.2 – Establishing cross-organizational and continuously applied methodologies to provide high-quality ESG evaluation and data, and disclosing it while paying attention to confidentiality, intellectual property, etc	Principle 1(b) – adopt, implement and provide transparency around the methodologies for its ESG rating and data products that are rigorous, systematic, applied continuously, while maintaining a balance with respect to proprietary or confidential aspects of the methodologies	Article 28L (e) have written policies, procedures and internal controls to ensure that the processes and methodologies are rigorous and systematic, are consistently applied, and are periodically reviewed and updated	Article 14 (7) ESG rating providers shall use rating methodologies for the ESG ratings they provide that are rigorous, systematic, independent and capable of justification and shall apply those rating methodologies continuously and in a transparent manner	Action 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
For ESG ratings, publishing on a regular basis an evaluation of their methodologies against the outputs which they have been used to produce	Action 4.16 (I) A regular evaluation of their methodologies against the outputs which they have been used to produce		Principle 1(c) — for ESG rating, conduct and publish on a regular basis, an evaluation of its methodologies against the outputs which they have been used to produce			Action 4.16 (I) A regular evaluation of their methodologies against the outputs which they have been used to produce
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	Action 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	<p>Principle 4.5 (vii) – Changes made when the evaluation methodology is updated. Especially if any items are improved through the PDCA cycle, this fact and reasons for it</p> <p>Principle 1.4 – Checking on a regular basis whether there would be any apparent discrepancy between the evaluation results and the service provision methodologies mentioned above, and updating methodologies as necessary (implementation of the PDCA cycle for evaluation)</p>	(d) subject the ESG rating and data products methodologies (including data sources) to regular review, and disclose sufficient information (including any material updates) made to the methodologies as well as its views on the potential impact of these changes to the ESG rating and data products	<p>Article 28K (f) disclose the changes in the ESG rating methodology and consequential changes in ESG ratings on its website</p> <p>Article 28K (g) disclose the extent to which a change in ESG rating is on account of the change in the ESG rating methodology</p> <p>Article 28M(1) The ESG rating provider shall annually, or if required, more frequently, review each of the published ESG ratings, unless the ESG rating is withdrawn in accordance with these regulations</p>	<p>Article 14 (13) ESG rating providers shall only make changes to their ESG ratings in accordance with their rating methodologies published pursuant to Article 21</p> <p>Article 14 (8) ESG rating providers shall review the rating methodologies referred to in paragraph 7 on an ongoing basis and at least annually</p>	Action 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

Table A – Comparative analysis of recommendations/requirements introduced by policymakers focusing on the methodology of ESG ratings and data products

IOSCO Final Report	DRWG Code of Conduct	JFSA Code of Conduct	MAS Code of Conduct	SEBI CRA Amendment/ Master Circular	EU Regulatory Proposal	Hong Kong VCWG Draft Code of Conduct
<p>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</p>	<p>Action 4.13 (F) the principal sources of qualitative and quantitative information used in the assessment, including for example whether the information is forward-looking (such as transition plans), 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</p>	<p>Principle 4.4 – Disclosing the sources of information that are used in the development of ESG evaluation and data. In particular, if estimated data is used, disclosing this fact and the basic methodology of estimation. If data sources and/or items are diverse or of great numbers, doing these in a reasonable scope and manner, such as by consolidating or limiting the scope, reflecting their importance and usefulness</p>	<p>Principle 1(e) – provide transparency, where reasonably possible, around the sources of data used in determining its ESG rating and data products, including the use of any industry averages, estimations or other methodologies when actual data is not accessible to it. This may include transparency around the timeliness of data used, the time period of the data used, as well as whether the data is publicly sourced or proprietary in nature, including through approximations</p>	<p>See Article 28L (f)</p>	<p>Annex III (1)(a) overview of the rating methodologies used (and changes thereto), including whether analysis backward-looking or forward-looking and the time horizon covered</p>	<p>Action 4.13 (F) the principal sources of qualitative and quantitative information used in the assessment, including for example whether the information is forward-looking (such as transition plans), 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</p>
	<p>Action 4.14 (G) the time horizon of the assessment</p>	<p>Principle 4.5 – Disclosing, in an easy-to-understand manner, the purpose, concept, and basic methodology of the evaluation (...) sources of information on which the evaluation is based, policy and status of estimated data usage, the update timings and estimation methodologies of data that is particularly important to the overall assessment; with respect to the overall evaluation, the timing of evaluation and the timing of data creation, use, and update</p>			<p>Annex III 1 (b) overview of data sources including whether data is sourced from sustainability statements required under Directive 2013/34/EU or from information disclosed under Regulation (EU)2019/2088 and whether sources are public or non-public and an overview of data processes, estimation of input data in case of unavailability and frequency of data updates</p>	
<p>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</p>	<p>Action 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</p>	<p>Principle 1.5 – Managing ESG evaluation methodologies and data on a continuous basis, checking or updating them regularly, and disclosing when the input data is usually obtained or updated by the providers (if evaluation and data items are diverse or of great numbers, doing this in a reasonable scope and manner, such as by consolidating or limiting the scope, taking into account their importance and usefulness based on user needs)</p>	<p>Principle 1(f) – monitor on an ongoing basis, and regularly update the ESG rating and data products, except where specifically disclosed that the ESG rating is a point in time rating by:</p> <ul style="list-style-type: none"> ▶ reviewing, on a regular basis, the ESG rating of the rated entity ▶ initiating a review of the ESG rating upon becoming aware of any public information that may reasonably be expected to result in a revision or termination of the ESG rating, consistent with the rating methodology ▶ updating on a timely basis the ESG rating, as appropriate, based on the results of such review 	<p>See Article 28L (e)</p> <p>Article 28L (2) The ESG rating provider shall continuously monitor the rating of a client, unless the rating is withdrawn in such manner as may be specified by the Board</p>	<p>See Article 14(3) and (8); Annex III 1(a) (b) and 2(b)(2)</p>	<p>Action 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</p>

Table A – Comparative analysis of recommendations/requirements introduced by policymakers focusing on the methodology of ESG ratings and data products

IOSCO Final Report	DRWG Code of Conduct	JFSA Code of Conduct	MAS Code of Conduct	SEBI CRA Amendment/ Master Circular	EU Regulatory Proposal	Hong Kong VCWG Draft Code of Conduct
<p>Maintaining internal records to support their ESG ratings and data products</p>	<p>Action 2.10 (C) they maintain internal records to support their ESG ratings and data products</p>		<p>Principle 1(g) – maintain records to support every ESG rating and data products that it issues. Such records can be kept for at least 6 years from the issue date of the relevant ESG rating and data products</p>	<p>Article 28R (1) Every ESG rating provider shall keep and maintain, for a minimum period of five years, the following books of accounts, records and documents, namely (...)</p> <p>(d) information supplied by each of the clients, if applicable; (e) correspondence with each client; (f) ESG ratings assigned to various issuers or securities including up-gradation and down gradation (if any) of the ratings so assigned; (g)ESG rating notes and other documents which state the rationale or form the basis for assigning an ESG rating</p>	<p>Article 17 (1) ESG rating providers shall record their ESG rating activities. Those records shall contain the information listed in Annexes I and II</p> <p>Article 17 (2) ESG rating providers shall keep the information referred to in paragraph 1 for at least five years and in such a form that it is possible to replicate and fully understand the determination of an ESG rating</p>	<p>Action 2.10 (C) they maintain internal records to support their ESG ratings and data products</p>
<p>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</p>	<p>Action 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. The quality controls should include both:</p> <ul style="list-style-type: none"> i. procedural checks to ensure that the methodology and internal processes are followed correctly ii. holistic checks to ensure that the process considering the plausibility, coherence and logic of the product is sound. The quality control framework should also allow for the appropriate and timely consideration of information brought to ESG ratings and data products providers’ attention by covered entities or users, as outlined at action 6.10 below 	<p>Principle 2 – ESG evaluation and data providers should secure necessary professional human resources to ensure the quality of the evaluation and data provision services they provide, and should develop their own professional skills</p> <p>Principle 2.1 – Collecting and analyzing information necessary to provide appropriate evaluation and data, and maintaining necessary professional resources and technologies to make relevant decisions</p>	<p>Principle 1(i) – ensure that it has adequate resources to produce high-quality ESG rating and data products of the covered entity, including sufficient personnel and technological capabilities, to seek out information it needs in order to make an assessment, analyse all information relevant to its decision-making processes, and provide quality assurance (e.g. verification of data). For an ESG rating, when deciding whether to rate or continue rating a rated entity, the ESG Rating Provider should assess whether it is able to devote sufficient personnel with the necessary skill sets to make a proper ESG rating assessment, and whether its personnel will likely have access to sufficient information needed in order to produce the ESG rating. It should adopt reasonable measures so that the information it uses in assigning an ESG rating is of sufficient quality to support a credible ESG rating. The ESG rating should also be based on publicly disclosed data sources, and other information sources where necessary, using transparent and defined methodologies. If the ESG rating is based on limited data, it should make clear, in a prominent place, the limitations of the ESG rating</p>	<p>Article 28L (a) have appropriate internal resources to assign an ESG rating</p>	<p>Article 16 (1) ESG rating providers shall ensure that rating analysts, employees and any other natural person under their control or whose services are placed at their disposal, for example by way of a contractual arrangement, and who are directly involved in the provision of ESG ratings, including analysts directly involved in the rating process and persons involved in the provision of ESG scores, are appropriately trained and have the knowledge and experience that is necessary for the performance of the duties and tasks assigned, including, where appropriate, a sufficient understanding of potential material financial risk to the rated entity and potential material impact of the rated entity on the environment and on society in general</p>	<p>Action 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. The quality controls should include both:</p> <ul style="list-style-type: none"> i. procedural checks to ensure that the methodology and internal processes are followed correctly ii. holistic checks to ensure that the process considering the plausibility, coherence and logic of the product is sound. The quality control framework should also allow for the appropriate and timely consideration of information brought to ESG ratings and data products providers’ attention by covered entities or users, as outlined at action 6.10 below

Table A – Comparative analysis of recommendations/requirements introduced by policymakers focusing on the methodology of ESG ratings and data products

IOSCO Final Report	DRWG Code of Conduct	JFSA Code of Conduct	MAS Code of Conduct	SEBI CRA Amendment/ Master Circular	EU Regulatory Proposal	Hong Kong VCWG Draft Code of Conduct
		In order to implement Principle 2, ESG evaluation and data providers should take necessary measures				
How to ensure personnel involved in the deliberation of ESG ratings and data products are professional, competent, and of high integrity	Action 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	Principle 2.2 – In particular, taking necessary measures to ensure personnel engaged in ESG evaluation and data would have professional knowledge and carry out their duties in good faith	Principle 1(h) – ensure that relevant personnel involved in preparing and deliberation of the ESG rating and data products are, individually or collectively where relevant, (for example when there are rating committees) professional, competent and persons of integrity	<p>Article 28E (m)(v) the applicant shall have at least four employees specialized across the following areas, at all times: (a) governance, (b) sustainability, (c) social impact or social responsibility, (d) data analytics, (e) finance, (f) information technology, and law (...) For the purposes of this regulation, one employee may be treated as a specialist in at most two of the above areas. A person shall be considered as specialized in an area if such person possesses any of the following: (a) relevant work experience of not less than five years in the specified area; or (b) a professional qualification in the specified area from a university or an institution recognized by the Central Government or any State Government or a foreign university, or a Chartered Financial Analyst charter from the Chartered Financial Analyst Institute; or (c) any other qualification as may be specified by the Board</p> <p>Article 28 (E)(n)(ii) the applicant shall have at least two employees specialized across the following areas, at all times: (a) governance, (b) sustainability, (c) social impact or social responsibility, and (d) data analytics. (...) For the purposes of this regulations, one employee may be treated as a specialist in at most two of the above areas. A person shall be considered as specialized in an area if such person possesses any of the following: (a) has relevant work experience of not less than five years in the specified area; or (b) a professional qualification in the specified area from a university or an institution recognized by the Central Government or any State Government or a foreign university; or (c) any other qualification as may be specified by the Board</p>	<p>See Article 16 (1)</p> <p>Article 24 (1)(a) have the skills that are necessary for performing their tasks and duties and are subject to effective management and supervision</p>	Action 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
Offering ESG ratings and data products to clients in a machine-readable format	Action 2.13 Finally, ESG ratings and data products providers could consider providing ESG ratings and data products to clients in a machine-readable format		Principle 1 (j) – consider offering ESG rating and data products to clients in a machine-readable format	Article 28K (h) maintain and disclose archives of previous ESG rating methodologies and ESG ratings on its website, in an easily downloadable and machine-readable format, preferably in eXtensible Business Reporting Language	Article 13 (2)(a) the information shall be prepared in a data extractable format as defined in Article 2, point (3), of Regulation (EU) XX/XXXX [ESAP Regulation] or, where required under Union law, in a machine-readable format, as defined in Article 2, point (4), of Regulation (EU) XX/XXXX [ESAP Regulation]	Action 2.13 Finally, ESG ratings and data products providers could consider providing ESG ratings and data products to clients in a machine-readable format

Table B

Comparative analysis of recommendations/requirements introduced by policymakers focusing on the transparency (disclosure) of methodologies of ESG ratings and data products

Please note the content of this table is taken in verbatim from articles and provisions of regulatory proposals and codes of conduct.

IOSCO Final Report	DRWG Code of Conduct	JFSA Code of Conduct	MAS Code of Conduct	SEBI CRA Amendment/ Master Circular	EU Regulatory Proposal	Hong Kong VCWG Draft Code of Conduct
Recommendation 5 – 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	Principle 4.1 – 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	Principle 4 – ESG evaluation and data providers should recognize that ensuring transparency is an essential and prioritized issue, and publicly clarify their basic approach in providing services, such as the purpose and basic methodology of evaluations. Methodologies and processes for formulating services should be sufficiently disclosed	Principle 4 – The ESG Rating and Data Product Provider should make adequate levels of public disclosure and transparency a priority for its ESG rating and data products, including their methodologies and processes to enable the users of the ESG rating and data products to understand what the product entails and how it is produced, while maintaining a balance with respect to proprietary or confidential information, data and methodologies	Article 28K (a) maintain a website and disclose the ESG ratings, type of ESG rating (whether risk based or impact-based or otherwise), scores on environmental, social and governance parameters and other parameters forming a part of the ESG rating, on such a website for public access and provide a hyperlink to the methodology of assigning an ESG rating	Article 14 (12) ESG rating providers shall not disclose information about their intellectual capital, intellectual property, know-how or the results of innovation that would qualify as trade secrets as defined in Article 2, point (1), of Directive (EU) 2016/943 of the European Parliament and of the Council	Principle 4.1 – 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
Article 28K (b) - prioritize adequate levels of public disclosure and transparency for its ESG ratings products, including its methodologies and processes	Article 21 (1) ESG rating providers shall disclose on their website, as a minimum, the methodologies, models and key rating assumptions they use in their ESG rating activities, including the information referred to in point (d) of Annex I and point 1 of Annex III. This information should be published in a clear and transparent manner and identified in a separate section of the ESG rating provider's website					
Making public disclosure and transparency a priority for their ESG ratings and data product offerings, subject to commercial sensitivity considerations	Action 4.4 (A) make public disclosure and transparency a priority for their ESG ratings and data products offerings, subject to commercial sensitivity considerations	Principle 4.1 – While giving necessary consideration to intellectual property, etc., ensuring the transparency of their services by recognizing that it is an essential and prioritized issue	Principle 4(a) make adequate levels of public disclosure and transparency a priority for its ESG rating and data products, subject to commercial sensitivity considerations	See Article 28K (b)		Action 4.4 (A) make public disclosure and transparency a priority for their ESG ratings and data products offerings, subject to commercial sensitivity considerations
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	Action 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 including its measurement objective	Principle 4.2 – In order for users of ESG evaluation and data provision services to understand the basic content of the services, including what the evaluation aims to capture and how this is measured, disclosing the basic approach for providing services, including the purpose and basic methodology of evaluation	Principle 4(b) – clearly label its ESG rating and data products to enable the user to understand the ESG rating's or ESG data product's intended purpose including its measurement objective	Article 28K (e) - use terminologies which are relevant and reflective of the characteristics of the ESG ratings product offered and, if the ESG rating provider is an associate or subsidiary of a credit rating agency, the ESG rating provider shall prominently display that ESG ratings are different from credit ratings, through its website and the ESG rating reports	Annex III(1)(d) information on the ratings' clearly defined objective and marking whether the rating is assessing risks, impacts, or both, according to the double materiality principle, or any other dimensions, and in the case of double materiality the proportion of the risk and impact materiality	Action 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 including its measurement objective
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 Action 4.13 (F)	Principle 4.4 – Disclosing the sources of information that are used in the development of ESG evaluation and data. In particular, if estimated data is used, disclosing this fact and the basic methodology of estimation. If data sources and/or items are diverse or of great numbers, doing these in a reasonable scope and manner, such as by consolidating or limiting the scope, reflecting their importance and usefulness	Principle 4(c) – make adequate levels of public disclosure, where reasonably possible, around the sources of data (e.g. publicly or privately sourced data or information) it relies on in offering ESG rating and data products, including the use of industry averages, estimations or other methodologies when actual data is not available (e.g. unavailability of publicly reported data if it is used for the product)	See Article 28L (f)	See Annex III (1)(b)	See Action 4.13 (F)

Table B - Comparative analysis of recommendations/requirements introduced by policymakers focusing on the transparency (disclosure) of methodologies of ESG ratings and data products

IOSCO Final Report	DRWG Code of Conduct	JFSA Code of Conduct	MAS Code of Conduct	SEBI CRA Amendment/ Master Circular	EU Regulatory Proposal	Hong Kong VCWG Draft Code of Conduct
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	Action 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	Principle 4.3 – In order to enable users and companies subject to evaluation to understand the basic structure of the evaluation, disclosing sufficient information on the methodologies and processes for formulating the evaluation, including any major updates on them, if any. When inquiries are received from companies subject to evaluation through a contact point, providing careful explanations to the extent practically possible	Principle 4(d) – make adequate levels of public disclosures on procedures and methodologies underlying its ESG rating and data products to enable the users of these products to understand how their outputs were determined	See Article 28L (f)	See Article 21 (1)	Action 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
Information regarding methodologies that ESG ratings and data products providers could consider publishing include, but is not limited to	Action 4.7 – ESG ratings and data products 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	Principle 4.5 – Disclosing, in an easy-to-understand manner, the purpose, concept, and basic methodology of the evaluation; doing this in a reasonable scope and manner, such as by consolidating or limiting the scope, taking into consideration a provider’s situation and the importance and relevance of individual items. The items are for example the following	Principle 4(e) – make adequate levels of public disclosure on ESG rating and data products methodologies that include, but not limited to	Article 28K(c) - disclose its rating methodology for all ESG ratings on its website, while maintaining a balance with respect to proprietary or confidential aspects of the methodologies, and include category-wise weightages of environmental, social, and governance factors in ESG ratings, as well as the weightage of high-level themes or key issues in each of the three factors	Annex III (1) In accordance with Article 21 of the Regulation, ESG rating providers shall, at the minimum, disclose to the public on their website and through the European Single Access Point (ESAP) the following (a) overview of the rating methodologies used (and changes thereto), including whether analysis is backward-looking or forward-looking and the time horizon covered	Action 4.7 ESG ratings and data products 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
The measurement objective of the ESG rating or data product	Action 4.8 (A) the measurement objective of the ESG rating	Purpose, approach, and intent of formulation of ESG evaluation and data	the measurement objective of the ESG rating and data products (e.g. measuring impact of the covered entity on the external environment and society, and/or measuring risk exposure and resilience of the covered entity to physical and transition ESG risks)		Annex III (1)(d) information on the ratings’ clearly defined objective and marking whether the rating is assessing risks, impacts, or both, according to the double materiality principle, or any other dimensions, and in the case of double materiality the proportion of the risk and impact materiality	Action 4.8 (A) the measurement objective of the ESG rating
The criteria used to assess the entity or company	Action 4.9 (B) the criteria used to assess the entity or company		the criteria used to assess the covered entity			Action 4.9 (B) the criteria used to assess the entity or company
The KPIs used to assess the entity against each criterion	Action 4.10 (C) the KPIs used to assess the entity against each criterion	Specific contents of evaluation methodologies (specific evaluation criteria, important indicators and weights in evaluation, businesses and companies subject to evaluation, and other contents of methodologies that can lead to significant differences in evaluation results)	the Key Performance Indicators used to assess the covered entity against each criterion (e.g. thresholds used to measure the ESG impacts and/or ESG risks, and related mitigation and adaptation measures), including the use of forward looking strategic plans and targets of the covered entity in the assessment		Annex III (2)(l)(4) the relevant KPIs per E, S and G factor, and weighting method	Action 4.10 (C) the KPIs used to assess the entity against each criterion
The relative weighting of these criteria to that assessment	Action 4.11 (D) the relative weighting of these criteria to that assessment	Evaluation process (evaluation procedures and steps, checks and monitoring, etc.)	the relative weighting of these criteria to that assessment	See Article 28K (c)		Action 4.11 (D) the relative weighting of these criteria to that assessment
The scope of business activities and group entities included in the assessment	Action 4.12 (E) the scope of business activities and group entities included in the assessment		the scope of business activities and group entities included in the assessment		Annex III(1)(aa) the industry classification used	Action 4.12 (E) the scope of business activities and group entities included in the assessment
The principal sources of qualitative and quantitative information used in the assessment as well as information on how the absence of information was treated	Action 4.13 (F) the principal sources of qualitative and quantitative information used in the assessment, including for example whether the information is forward-looking (such as transition plans), 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	Sources of information on which the evaluation is based, policy and status of estimated data usage, the update timings and estimation methodologies of data that is particularly important to the overall assessment (also see Principle 4.4)	The principal sources of qualitative and quantitative information used in the assessment as well as information on how the absence of information was treated		See Annex III (1)(b)	Action 4.13(F) the principal sources of qualitative and quantitative information used in the assessment, including for example whether the information is forward-looking (such as transition plans), 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
The time horizon of the assessment	Action 4.14 (G) the time horizon of the assessment	With respect to the overall evaluation, the timing of evaluation and the timing of data creation, use, and update	the time horizon of the assessment		See Annex III (1)(a)	Action 4.14 (G) the time horizon of the assessment
The meaning of each assessment category (where applicable)	Action 4.15 (H) the meaning of each assessment category		the meaning of each assessment category (where relevant)			Action 4.15 (H) the meaning of each assessment category

Table C

Comparative analysis of recommendations/requirements introduced by policymakers focusing on management of conflicts of interest associated with the provision of ESG ratings and data products

Please note the content of this table is taken in verbatim from articles and provisions of regulatory proposals and codes of conduct.

IOSCO Final Report	DRWG Code of Conduct	JFSA Code of Conduct	MAS Code of Conduct	SEBI CRA Amendment/ Master Circular	EU Regulatory Proposal	Hong Kong VCWG Draft Code of Conduct
Recommendation 6 – 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	Principle 5.1 – 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	Principle 5 – ESG evaluation and data providers should establish policies and procedures to appropriately protect non-public information obtained in the course of business	Principle 5 – The ESG Rating and Data Product Provider should adopt and implement written policies and procedures designed to address and protect all non-public information received from or communicated to it by any entity, or its agents, related to its ESG rating and data products, where appropriate in the circumstances	Article 28T(1) Every ESG rating provider shall treat, as confidential, the information supplied to it by any person and shall not disclose the same to any other person except where such disclosure is required or permitted by or under any law for the time being in force or the ESG rating provider has obtained the consent, in writing, of the provider of information	Article 16 (5)(a) take all reasonable measures to protect property and records in possession of the ESG rating provider from fraud, theft or misuse, taking into account the nature, scale and complexity of the ESG rating provider’s business and the nature and range of ESG rating activities	Principle 5.1 – 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
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	Action 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 nonpublic 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	Principle 5.1 – Establishing, disclosing and implementing the policies and procedures to protect information provided as confidential in the course of ESG evaluation and data services	Principle 5(a) – adopt and implement written policies, procedures and mechanisms related to its ESG rating and data products, designed to address and protect the non-public nature of information which is shared with it by entities under the terms of a confidentiality agreement or otherwise, under a mutual understanding that the information is shared confidentially. For an ESG rating, unless otherwise permitted by the confidentiality agreement and consistent with applicable law and regulations, the ESG Rating Provider and its personnel should not disclose non-public information in press releases, through research conferences, to future employers, or in conversations with investors, other issuers, other persons, or otherwise	Article 28T(3) The ESG rating provider shall adopt and implement written policies and procedures to protect all non-public information received related to their ESG rating products	See Article 16 (5)(a)	Action 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 nonpublic 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
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	Action 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	Principle 5.2 – Establishing, disclosing, and implementing the policies and procedures so that such confidential information will be used in accordance with the purpose of provision and not for the purposes other than ESG evaluation and data services, unless otherwise agreed	Principle 5(b) – adopt and implement written policies and procedures designed to address the use of non-public information only for purposes related to its ESG rating and data products or otherwise in accordance with its confidentiality arrangements with the entity	Article 28T(2) The ESG rating provider shall not use the confidential information, shared by any person for any purpose other than ESG ratings, for undertaking ESG ratings, unless the ESG rating provider obtains the consent, in writing, from the provider of the information	Article 16 (5)(c) - do not use or share confidential information for any other purpose than the provision of ESG rating activities, including for the trading of financial instruments	Action 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
Including information on data confidentiality management and on the protection of non-public information to the extent terms of engagement are published	Action 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		Principle 5(c) – include information on data confidentiality management and on the protection of nonpublic information to the extent terms of engagement are published	From Master Circular: Article 4.1.5.6 In its application to SEBI, the ERP shall also provide an undertaking that it shall continue to maintain confidentiality of the data obtained by it from its existing clients for the purpose of ESG rating, unless asked to share such information by operation of law	Annex II (1)(f) the internal records and external communications and files, including non-public information and work papers, used to form the basis of any ESG rating decision taken	Action 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

Table C - Comparative analysis of recommendations/requirements introduced by policymakers focusing on management of conflicts of interest associated with the provision of ESG ratings and data products

IOSCO Final Report	DRWG Code of Conduct	JFSA Code of Conduct	MAS Code of Conduct	SEBI CRA Amendment/ Master Circular	EU Regulatory Proposal	Hong Kong VCWG Draft Code of Conduct
<p>Recommendation 8 – 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</p>	<p>Principle – 6.1 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</p>	<p>Principle 6 – ESG evaluation and data providers should devise and improve the way they gather information from companies so that the process becomes efficient for both service providers and companies or necessary information can be sufficiently obtained. When important or reasonable issues related to information source are raised by companies subject to evaluation, ESG evaluation and data providers should appropriately respond to the issues</p>	<p>Principle 6 – The ESG Rating and Data Product Provider should ensure that information gathering processes with the covered entity, where relevant, is done in a manner that leads to efficient information procurement for it and these entities</p>	<p>Article 28L (1)(h) attempt to continually improve information gathering processes in respect of the issuers and securities rated by it</p>	<p>Article 14 (6) ESG rating providers shall adopt and implement sound administrative and accounting procedures, internal control mechanisms, and effective control and safeguard arrangements for information processing systems</p>	<p>Principle – 6.1 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</p>
<p>Recommendation 9 – 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</p>	<p>Action 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 and by users while maintaining the independence and integrity of these products</p>	<p>In order to implement Principle 6, ESG evaluation and data providers should take necessary measures such as:</p>	<p>Principle 7 – Where feasible and appropriate, the ESG Rating and Data Product Provider should respond to and address issues raised by the covered entity while maintaining the objectivity of these products</p>	<p>Article 28L (1)(i) respond to, and address issues flagged by issuers covered by its ESG rating products while ensuring that the same does not compromise the objectivity of the products</p>	<p>See Article 18</p>	<p>Action 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 and by users while maintaining the independence and integrity of these products</p>
<p>Where they collect information from covered entities on a bilateral basis, ESG ratings and data products providers could consider:</p>	<p>Action 6.4 Where they collect information from covered entities on a bilateral basis, ESG ratings and data products providers should:</p>	<p>In order to implement Principle 6, ESG evaluation and data providers should take necessary measures such as:</p>	<p>6. Where the ESG Rating and Data Product Provider collects information from covered entity on a bilateral basis, or through questionnaires, it should consider</p>			<p>Action 6.4 Where they collect information from covered entities on a bilateral basis, ESG ratings and data products providers should</p>
<p>Communicating sufficiently in advance when they expect to request this information regarding their ESG ratings and data products</p>	<p>Action 6.5(A) communicate sufficiently in advance by when they expect to request this information regarding their ESG ratings and data products</p>	<p>Principle 6.1 – When and if collecting information through surveys from a company subject to evaluation, notifying the company of the collection period sufficiently in advance. If available and where appropriate, entering, prior to the request, information that is already known to the providers, such as those publicly disclosed or submitted in the past, then seeking verification by the company in question</p>	<p>Principle 6(a) — communicating sufficiently in advance when it expects to request information for the purposes of preparing the ESG rating and data products</p>	<p>Article 28L (1)(j) - share the draft ESG rating report with the rated issuer or the issuer whose securities are being rated, before publication of the same: Provided that the ESG rating provider shall grant an opportunity of appeal and representation, if requested for by the issuer</p>	<p>Article 14 (11a) ESG rating providers shall inform the rated item or the issuer of the rated item during its working hours and at least two full working days before the first issuance of the ESG rating in order to give the rated item or the issuer of the rated item an opportunity to inform the ESG rating provider of any factual errors. To that end, ESG rating providers shall make available, upon request by the rated item or by the issuer of the rated item, free of charge and on a non-commercial basis, the information referred to in Annex III, point 1, points (aa) and (b) and in point 2 of Annex III, point (b)(2) and the date of the last update of data as well as, where relevant, any other data collected, estimated or computed related to them</p>	<p>Action 6.5 (A) communicate sufficiently in advance by when they expect to request this information regarding their ESG ratings and data products</p>
<p>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</p>	<p>Action 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</p>		<p>Principle 6(b) — including in its requests, pre-inputted information either from publicly available sources or from the covered entity’s previous submissions, where reasonably possible, for the covered entity’s review or confirmation</p>			<p>Action 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</p>

Table C - Comparative analysis of recommendations/requirements introduced by policymakers focusing on management of conflicts of interest associated with the provision of ESG ratings and data products

IOSCO Final Report	DRWG Code of Conduct	JFSA Code of Conduct	MAS Code of Conduct	SEBI CRA Amendment/ Master Circular	EU Regulatory Proposal	Hong Kong VCWG Draft Code of Conduct
ESG ratings and data products providers could consider;	Action 6.7 ESG ratings and data products providers should;		7. The ESG Rating and Data Product Provider should;			
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	Action 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	Principle 6.2 –Establishing a dedicated contact point where companies can send inquiries and raise issues regarding ESG evaluation and data provision, and informing the companies concerned or posting it in an easy-to-find manner	Principle 7(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 Rating and Data Product Provider;	From Master Circular: Article 12.2.6. Information to be disclosed through the Rating Rationale: The rating action(s) in such cases shall be promptly disclosed through rating rationale(s), which shall mention, at least, the following (...) 12.2.6.8. Name and contact details of the Rating Analyst(s)	Article 18 (1) ESG rating providers shall have in place and publish on their website procedures for receiving, investigating and retaining records concerning complaints made by users of ESG ratings, rated items and issuers of rated items. ESG rating providers shall also clearly provide information on their website about their complaints-handling mechanism and contact details	Action 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
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	Action 6.9 (B) where feasible and appropriate, informing covered entities: i. that they are in the process of being assessed ii. of the principal categories of data on which an ESG rating is based before the publication of the ESG rating	Principle 6.3 – When disclosing ESG evaluation and data, subject to the institution’s evaluation methodologies and customer service policies, to the extent practically possible, expeditiously notifying or communicating to a company of the essential information sources of the evaluation and data, thereby allowing time for the company to check whether there are any significant deficiencies in the sources, such as factual errors	Principle 7(b) – expeditiously inform the covered entity of the principal grounds on which the: i. ESG rating is based, before or after the publication of the ESG rating ii. ESG data product is based, before or after the publication of the ESG data product, where practicable	Article 28L (1)(j) share the draft ESG rating report with the rated issuer or the issuer whose securities are being rated, before publication of the same: Provided that the ESG rating provider shall grant an opportunity of appeal and representation, if requested for by the issuer	See Article 14 (11a)	Action 6.9 (B) where feasible and appropriate, informing 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
Allowing the covered entity time to draw attention to any factual errors in the product, including the data and information underlying the product	Action 6.10 (C) allow the covered entity and users 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		Principle 7(c) – allow the covered entity time to draw attention to any factual errors, including the data and information underlying the: i. ESG rating ii. ESG data product, where practicable			Action 6.10 (C) allow the covered entity and users 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
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	Action 6.11 (D) publish terms of engagement describing how ESG ratings and data 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	Principle 6.5 – As an ESG evaluation and data provider, disclosing a “procedures of engagement” regarding how it normally interacts with companies to be evaluated with respect to the evaluation and data it provides. The procedures would include elements such as when it requests information from companies, when and what companies could check with, how they could raise issues if any, and how the provider would be able to respond to such issues	Principle 7(d) – publish terms of engagement describing how and when it will typically engage with the covered entity, including when information is likely to be requested and the opportunities available to the covered entity for review		Annex III (2)(7)(c) where applicable, information about engagement with rated entities, including whether on-site reviews or visits have been performed by the ESG rating provider and at what frequency	Action 6.11 (D) publish terms of engagement describing how ESG ratings and data 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

Table D Comparative analysis of recommendations/requirements introduced by policymakers focusing on systems and controls

Please note the content of this table is taken in verbatim from articles and provisions of regulatory proposals and codes of conduct.

IOSCO Final Report	DRWG Code of Conduct	JFSA Code of Conduct	MAS Code of Conduct	SEBI CRA Amendment/ Master Circular	EU Regulatory Proposal	Hong Kong VCWG Draft Code of Conduct
Recommendation 6 – 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	Principle 5.1 – 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	Principle 5 – ESG evaluation and data providers should establish policies and procedures to appropriately protect non-public information obtained in the course of business	Principle 5 – The ESG Rating and Data Product Provider should adopt and implement written policies and procedures designed to address and protect all non-public information received from or communicated to it by any entity, or its agents, related to its ESG rating and data products, where appropriate in the circumstances	Article 28T (1) Every ESG rating provider shall treat, as confidential, the information supplied to it by any person and shall not disclose the same to any other person except where such disclosure is required or permitted by or under any law for the time being in force or the ESG rating provider has obtained the consent, in writing, of the provider of information	Article 16 (5)(a) Take all reasonable measures to protect property and records in possession of the ESG rating provider from fraud, theft or misuse, taking into account the nature, scale and complexity of the ESG rating provider’s business and the nature and range of ESG rating activities	Principle 5.1 – 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
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	Action 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 nonpublic 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	Principle 5.1 – Establishing, disclosing and implementing the policies and procedures to protect information provided as confidential in the course of ESG evaluation and data services	Principle 5(a) – adopt and implement written policies, procedures and mechanisms related to its ESG rating and data products, designed to address and protect the non-public nature of information which is shared with it by entities under the terms of a confidentiality agreement or otherwise, under a mutual understanding that the information is shared confidentially. For an ESG rating, unless otherwise permitted by the confidentiality agreement and consistent with applicable law and regulations, the ESG Rating Provider and its personnel should not disclose non-public information in press releases, through research conferences, to future employers, or in conversations with investors, other issuers, other persons, or otherwise	Article 28T (3) The ESG rating provider shall adopt and implement written policies and procedures to protect all non-public information received related to their ESG rating products	See Article 16 (5)(a)	Action 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 nonpublic 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
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	Action 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	Principle 5.2 – Establishing, disclosing, and implementing the policies and procedures so that such confidential information will be used in accordance with the purpose of provision and not for the purposes other than ESG evaluation and data services, unless otherwise agreed	Principle 5(b) – adopt and implement written policies and procedures designed to address the use of non-public information only for purposes related to its ESG rating and data products or otherwise in accordance with its confidentiality arrangements with the entity	Article 28T (2) The ESG rating provider shall not use the confidential information, shared by any person for any purpose other than ESG ratings, for undertaking ESG ratings, unless the ESG rating provider obtains the consent, in writing, from the provider of the information	Article 16 (5)(c) do not use or share confidential information for any other purpose than the provision of ESG rating activities, including for the trading of financial instruments	Action 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
Including information on data confidentiality management and on the protection of non-public information to the extent terms of engagement are published	Action 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		Principle 5(c) – include information on data confidentiality management and on the protection of nonpublic information to the extent terms of engagement are published	From Master Circular: Article 4.1.5.6 In its application to SEBI, the ERP shall also provide an undertaking that it shall continue to maintain confidentiality of the data obtained by it from its existing clients for the purpose of ESG rating, unless asked to share such information by operation of law	Annex II (1)(f) the internal records and external communications and files, including non-public information and work papers, used to form the basis of any ESG rating decision taken	Action 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

Table E

Comparative analysis of recommendations/requirements introduced by policymakers focusing on systems and controls, with a greater emphasis on communication

Please note the content of this table is taken in verbatim from articles and provisions of regulatory proposals and codes of conduct.

IOSCO Final Report	DRWG Code of Conduct (mandated by UK FCA)	JFSA Code of Conduct	MAS Code of Conduct	SEBI CRA Amendment/ Master Circular	EU Regulatory Proposal	VCWG Draft Code of Conduct (mandated by HK SFC)
Recommendation 8 – 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	Principle 6.1 – 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.	Principle 6 – ESG evaluation and data providers should devise and improve the way they gather information from companies so that the process becomes efficient for both service providers and companies or necessary information can be sufficiently obtained. When important or reasonable issues related to information source are raised by companies subject to evaluation, ESG evaluation and data providers should appropriately respond to the issues	Principle 6 – The ESG Rating and Data Product Provider should ensure that information gathering processes with the covered entity, where relevant, is done in a manner that leads to efficient information procurement for it and these entities	Article 28L (1)(h) attempt to continually improve information gathering processes in respect of the issuers and securities rated by it	Article 14(6) ESG rating providers shall adopt and implement sound administrative and accounting procedures, internal control mechanisms, and effective control and safeguard arrangements for information processing systems	Principle 6.1 – 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
Recommendation 9 – 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	Action 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 and by users while maintaining the independence and integrity of these products		Principle 7 – Where feasible and appropriate, the ESG Rating and Data Product Provider should respond to and address issues raised by the covered entity while maintaining the objectivity of these products	Article 28L (1)(i) respond to, and address issues flagged by issuers covered by its ESG rating products while ensuring that the same does not compromise the objectivity of the products	See Article 18	Action 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 and by users while maintaining the independence and integrity of these products
Where they collect information from covered entities on a bilateral basis, ESG ratings and data products providers could consider:	Action 6.4 Where they collect information from covered entities on a bilateral basis, ESG ratings and data products providers should:	In order to implement Principle 6, ESG evaluation and data providers should take necessary measures such as:	6. Where the ESG Rating and Data Product Provider collects information from covered entity on a bilateral basis, or through questionnaires, it should consider:			Action 6.4 Where they collect information from covered entities on a bilateral basis, ESG ratings and data products providers should:
Communicating sufficiently in advance when they expect to request this information regarding their ESG ratings and data products	Action 6.5 (A) communicate sufficiently in advance by when they expect to request this information regarding their ESG ratings and data products	Principle 6.1 – When and if collecting information through surveys from a company subject to evaluation, notifying the company of the collection period sufficiently in advance. If available and where appropriate, entering, prior to the request, information that is already known to the providers, such as those publicly disclosed or submitted in the past, then seeking verification by the company in question	Principle 6(a) – communicating sufficiently in advance when it expects to request information for the purposes of preparing the ESG rating and data products	Article 28L (1)(j) share the draft ESG rating report with the rated issuer or the issuer whose securities are being rated, before publication of the same: Provided that the ESG rating provider shall grant an opportunity of appeal and representation, if requested for by the issuer	Article 14 (11a) ESG rating providers shall inform the rated item or the issuer of the rated item during its working hours and at least two full working days before the first issuance of the ESG rating in order to give the rated item or the issuer of the rated item an opportunity to inform the ESG rating provider of any factual errors. To that end, ESG rating providers shall make available, upon request by the rated item or by the issuer of the rated item, free of charge and on a non-commercial basis, the information referred to in Annex III, point 1, points (aa) and (b) and in point 2 of Annex III, point (b)(2) and the date of the last update of data as well as, where relevant, any other data collected, estimated or computed related to them	Action 6.5 (A) communicate sufficiently in advance by when they expect to request this information regarding their ESG ratings and data products
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	Action 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		Principle 6(b) – including in its requests, pre-inputted information either from publicly available sources or from the covered entity's previous submissions, where reasonably possible, for the covered entity's review or confirmation			Action 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

Table E - Comparative analysis of recommendations/requirements introduced by policymakers focusing on systems and controls, with a greater emphasis on communication

IOSCO Final Report	DRWG Code of Conduct (mandated by UK FCA)	JFSA Code of Conduct	MAS Code of Conduct	SEBI CRA Amendment/ Master Circular	EU Regulatory Proposal	VCWG Draft Code of Conduct (mandated by HK SFC)
ESG ratings and data products providers could consider:	Action 6.7 ESG ratings and data products providers should:		7. The ESG Rating and Data Product Provider should:			
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	Action 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	Principle 6.2 – Establishing a dedicated contact point where companies can send inquiries and raise issues regarding ESG evaluation and data provision, and informing the companies concerned or posting it in an easy-to-find manner	Principle 7(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 Rating and Data Product Provider	From Master Circular: Article 12.2.6. Information to be disclosed through the Rating Rationale: The rating action(s) in such cases shall be promptly disclosed through rating rationale(s), which shall mention, at least, the following (...) 12.2.6.8. Name and contact details of the Rating Analyst(s)	Article 18 (1) ESG rating providers shall have in place and publish on their website procedures for receiving, investigating and retaining records concerning complaints made by users of ESG ratings, rated items and issuers of rated items. ESG rating providers shall also clearly provide information on their website about their complaints-handling mechanism and contact details	Action 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
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	Action 6.9 (B) where feasible and appropriate, informing covered entities: i. that they are in the process of being assessed ii. of the principal categories of data on which an ESG rating is based before the publication of the ESG rating	Principle 6.3 – When disclosing ESG evaluation and data, subject to the institution’s evaluation methodologies and customer service policies, to the extent practically possible, expeditiously notifying or communicating to a company of the essential information sources of the evaluation and data, thereby allowing time for the company to check whether there are any significant deficiencies in the sources, such as factual errors	Principle 7(b) – expeditiously inform the covered entity of the principal grounds on which the: i. ESG rating is based, before or after the publication of the ESG rating ii. ESG data product is based, before or after the publication of the ESG data product, where practicable	Article 28L (1)(j) share the draft ESG rating report with the rated issuer or the issuer whose securities are being rated, before publication of the same: Provided that the ESG rating provider shall grant an opportunity of appeal and representation, if requested for by the issuer	See Article 14(11a)	Action 6.9 (B) where feasible and appropriate, informing covered entities: i. that they are in the process of being assessed ii. of the principal categories of data on which an ESG rating is based before the publication of the ESG rating
Allowing the covered entity time to draw attention to any factual errors in the product, including the data and information underlying the product	Action 6.10 (C) allow the covered entity and users 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		Principle 7(c) – allow the covered entity time to draw attention to any factual errors, including the data and information underlying the: i. ESG rating ii. ESG data product, where practicable			Action 6.10 (C) allow the covered entity and users 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
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	Action 6.11 (D) publish terms of engagement describing how ESG ratings and data 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	Principle 6.5 – As an ESG evaluation and data provider, disclosing a “procedures of engagement” regarding how it normally interacts with companies to be evaluated with respect to the evaluation and data it provides. The procedures would include elements such as when it requests information from companies, when and what companies could check with, how they could raise issues if any, and how the provider would be able to respond to such issues	Principle 7(d) – publish terms of engagement describing how and when it will typically engage with the covered entity, including when information is likely to be requested and the opportunities available to the covered entity for review		Annex III (2)(7)(c) where applicable, information about engagement with rated entities, including whether on-site reviews or visits have been performed by the ESG rating provider and at what frequency	Action 6.11 (D) publish terms of engagement describing how ESG ratings and data 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

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