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## Regulation: FCA to Develop Code for ESG Data and Ratings Providers

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Regulation



By Duncan Grieve

Special Counsel | White Collar Defense and Investigations

On November 22, the UK's Financial Conduct Authority (FCA) **announced** the creation of a group to develop a voluntary Code of Conduct covering ESG data and ratings providers with the aim of bringing about greater market transparency. The ESG Data and Ratings Code of Conduct Working Group will be comprised of investors, ESG data and ratings providers and rated entities. It will be co-chaired by M&G, Moody's, the London Stock Exchange Group and Slaughter and May, with the International Capital Market Association and the International Regulatory Strategy Group acting as joint Secretariat. The group will meet for the first time later this year and will focus on outcomes in the areas highlighted in the International Organization of Securities Commissions' (IOSCO) **recommendations** published earlier this month, including transparency, good governance, management of conflicts of interest, and systems and controls. In the announcement, the FCA reiterated its intention, if the "Treasury extends its regulatory perimeter," to develop a "proportionate and effective regulatory regime."

**Taking the Temperature: The lack of consistency among ratings providers in terms of their source data, methodologies and weightings of the various aspects of ESG is an issue that we previously have **highlighted** in Cadwalader Climate and in our in-depth ESG ratings **article**. Such market divergence has led to, among other things, the same company having materially different ratings from different ratings providers. More generally, it means that asset managers and other consumers of ratings continue to have difficulty understanding how to make use of a particular provider's ratings, if they refer to ratings at all. A key to helping resolve this confusion is greater transparency into methodologies on the part of ratings providers. In that sense, the FCA's initiative, including its focus on transparency, offers the chance for greater clarity in this area.**

The FCA's approach also recognizes the global nature of climate-related issues, with the FCA stating that its "Code will seek to be internationally consistent, by taking into account not only IOSCO's recommendations but also developments in jurisdictions

**such as Japan and the EU. This will help encourage the development of consistent global standards.”**