



30 June 2023

## **FIA EPTA Response to HM Treasury [Consultation](#) on the Future regulatory regime for Environmental, Social, and Governance (ESG) ratings providers**

<b>Introduction</b>	<p>The FIA European Principal Traders Association (FIA EPTA) represents Europe’s leading Principal Trading Firms. Our members are independent market makers and providers of liquidity and risk-transfer for markets and end-investors across Europe. FIA EPTA works constructively with policy-makers, regulators and other market stakeholders to ensure efficient, resilient and trusted financial markets in Europe. FIA EPTA’s members are based in the Czech Republic, Germany, Ireland, The Netherlands, and the UK (~70% of our members have been licensed by the FCA).</p> <p>FIA EPTA members welcome the opportunity to respond to HM Treasury’s CP on the Future regulatory regime for Environmental, Social, and Governance (ESG) ratings providers. FIA EPTA members welcome the actions and responsibilities taken by the UK Government and HMT and believe that regulation of ESG rating providers is important and needed to build trust in ESG data and products and help (end)investors make meaningful investment decisions.</p> <p>FIA EPTA members appreciate HMT’s consideration of our comments herein and welcome the opportunity to discuss further and provide additional input as required.</p>
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## 1. Introduction

Question	FIA EPTA Response
Q1: Do you agree that regulation should be introduced for ESG ratings providers?	<p>Yes, FIA EPTA members believe that regulation should be introduced for ESG rating providers. Almost all (retail) investors rely on data from rating providers for their investment decisions. For now, there is not enough harmonisation and standardisation between data for investors to make meaningful decisions. For an effective mobilisation of private capital for sustainable products, trust and clarity in the data and products are needed. FIA EPTA members believe to accomplish this, regulation is needed, and that by moving early the UK can reinforce its position as a leading centre of financial services. If the uncertainty around the data and products continues it will slow down the shift towards a green financial infrastructure.</p> <p>FIA EPTA members believe that this is also an opportunity for the UK to work together with other jurisdictions e.g. the US and EU and with organisations e.g. IOSCO; making sure that the regulatory framework is fit for purpose and helping the UK to remain competitive.</p>
Q2: (For ESG ratings providers) If your firm were subject to regulation in line with IOSCO's recommendations, and aimed at delivering the four key regulatory outcomes in Figure 1.A, how would this impact your business? Please provide information on the size of your business when answering this question.	N/a
Q3: Are there any practical challenges arising from overlap between potential regulation for ESG ratings providers and existing regulation?	No, FIA EPTA members do not believe there are any meaningful practical challenges arising from the overlap between potential regulation for ESG rating providers and existing regulation. We believe that the regulation should be based on existing regulations as far as possible and dedicated ESG regulation could be added without creating challenges; helping the UK remain competitive and ensuring regulation remains proportionate and balanced.
Q4: . Are there any other practical challenges to introducing such regulation?	FIA EPTA decided not to respond to this question.

## 2. Description of ESG ratings and their provision

Question	FIA EPTA Response
Q5: Do you agree with the proposed description of an ESG rating?	Yes, FIA EPTA members agree with the proposed description by HMT of an ESG rating. We agree that it is good to keep the definition broad as investors need to have standardised and trustworthy ESG data to make informed and meaningful investment decisions.
Q6: Do you agree that ESG data, where no assessment is present, should be excluded from regulation?	<p>FIA EPTA members understand why HMT wants to exclude ESG data where no assessment is present, however, we believe that it should be made clear that this type of ESG data is out of the original scope of regulated ESG data so that (retail) investors know that the information of the non-regulated ESG data does not fall within the same perimeter of regulated ESG data, and why that is. FIA EPTA members believe that trust is of extreme importance for the uptake and development of ESG markets, and there needs to be a high level of transparency around the ESG data.</p> <p>More data leads to more transparency and better outcomes for all market participants, and FIA EPTA members believe that HMT should consider increasing data transparency as much as possible to ensure all investors can make informed decisions.</p>
Q7: Do you agree with the proposal to regulate the activity of providing ESG ratings to be used in relation to RAO specified investments?	Yes, FIA EPTA members agree with HMT to regulate the activity of providing ESG ratings to be used in relation to RAO-specified investments.
Q8: (For ESG ratings providers) Do you know when an ESG rating you provide will be used in relation to a specified investment?	N/a.

Q9: Are there ESG ratings used in relation to anything other than an RAO specified investment which also should be included in regulation?	FIA EPTA decided not to respond to this question.
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### 3. Exclusions

Question	FIA EPTA Response
Q10: Do you agree that each of the eight scenarios listed above (in paragraphs 3.2, 3.3, and 3.5) should be excluded from regulation?	<p>FIA EPTA members believe that exemptions shouldn't be given easily, this is to create a level playing field and it would help against conflict of interest. FIA EPTA members would suggest making a distinction in 3.2 not-for-profit entities; making sure that not-for-profit entities that share their ESG data in a voluntary, informative manner to stakeholders and investors and it is not the main objective of the not-for-profit, versus not-for-profit organisations that sell the ESG data to investors and is the main source of income of the not-for-profit. We believe this distinction is important due to the wide variety of not-for-profit organisations active. However, FIA EPTA members believe it would, however, for the (end)investor be best if both would were part of regulation. To create transparent and harmonised ESG data that is needed to make meaningful investment decisions.</p> <p>FIA EPTA members believe it beneficial for public entities that if they are exempt from regulation are encouraged to try and follow the regulatory framework for ESG data as that will be helpful to the users of the data. FIA EPTA members believe it is important that (end)investors can trust the ESG data and regulation makes sure that the ESG data is transparent and harmonised and gives a level of quality which is beneficial for (end) investors and society.</p>
Q11: Are there any other exclusions which should be provided for?	FIA EPTA decided not to respond to this question.

## 4. Territorial scope

Question	FIA EPTA Response
Q12: Do you agree with the proposal to regulate the direct provision of ratings to users in the UK, regardless of the location of the provider?	Yes, FIA EPTA members agree with the proposal to regulate the direct provision of ratings to users in the UK, regardless of the location of the provider.
Q13: (For UK users of ESG ratings) Are you concerned that this proposal would hamper the choice of ESG ratings available to you?	N/a.
Q14: Should any instances of direct provision of ESG ratings to users in the UK be excluded from regulation (for example, the provision of ESG ratings to UK branches of overseas firms, or to retail users who are temporarily physically located in the UK)?	FIA EPTA decided not to respond to this question.
Q15: Are there any scenarios of indirect provision of ESG ratings to UK users which should also be regulated?	FIA EPTA decided not to respond to this question.
Q16: How would the territorial scope proposed in this chapter interact with initiatives related to ESG ratings in other jurisdictions, such as proposals for regulation or codes of conduct?	<p>FIA EPTA members believe it is important for regulators to work closely together on this overarching topic that has a global impact. It is beneficial for ESG rating providers, (retail) investors using them and companies that are subject to ESG ratings to have similar approaches in different jurisdictions.</p> <p>In addition, FIA EPTA members believe this is also a chance for the UK to focus on effectively influencing global regulatory approaches and building bridges with other jurisdictions, including the EU and US and international organisations like IOSCO. Getting this right will ensure that the financial services sector can efficiently contribute to the green transition while maintaining the UK's competitiveness.</p>

## 5. Proportionality

Question	FIA EPTA Response
Q17: Should smaller ESG ratings providers be subject to fewer or less burdensome requirements?	<p>FIA EPTA members understand the intention of HMT to help smaller ESG rating providers by being subject to fewer or less burdensome requirements. However, FIA EPTA members believe a level playing field is more important; making sure the ESG data is transparent and harmonised will help (end)investors make meaningful investment decisions.</p> <p>FIA EPTA members do not believe that this will help to remove a barrier for smaller providers to enter the UK market. Established rating providers that want to expand their coverage should adhere to the general standards set by the regulator. In addition, newly established rating providers could benefit from a less burdensome regime for a short starting period which is directed towards alignment with the regulatory framework.</p> <p>FIA EPTA members believe that for firms to come to the UK, or start in the UK and spread out to other jurisdictions is most served by regulation that is comparable to other jurisdictions. That is why, FIA EPTA members believe that HMT and the UK Government should work together with jurisdictions, e.g. the EU and US and international organisations e.g. IOSCO. Creating a framework that is not too far away from each other will help create a less burdensome regulation for providers and the users of ESG data. This would allow the UK to take a leadership role in helping to set international standards, and cement its position as a global financial services centre.</p>
Q18: (For ESG ratings providers) What impact would an authorisation requirement have on your business? Please provide information on the size of your business when answering this question.	N/a.
Q19: Do you have any views on an opt-in mechanism for smaller providers?	FIA EPTA members believe that an opt-in mechanism could be a good consideration for HMT but would argue that also smaller rating providers should be required to follow parts of the regime. FIA EPTA members believe that ESG data should be transparent, harmonised and trustworthy to have the impact needed on ESG markets. (End)

	<p>Investors need to have the assurance that the ESG ratings are fit for purpose and the metrics on which the ESG ratings are based.</p>
<p>Q20: What criteria should be used when evaluating the size of ESG ratings providers?</p>	<p>FIA EPTA decided not to respond to this question.</p>
<p>Q21: What level could the criteria for small ratings providers be set at (i.e., how could 'small ratings provider' be defined)?</p>	<p>FIA EPTA members believe the criteria of small rating providers should be aligned with the overall regulatory regime for ESG data. The ESG data produced by rating providers need to be transparent and harmonised to make balanced and meaningful investment decisions. FIA EPTA members believe in a level playing field and having a large scope would help counter any conflict of interest within ESG data providers.</p> <p>FIA EPTA members already see a lot of larger and smaller ESG rating providers active in the markets which makes it less transparent for (end) investors to know the metrics on which the ESG ratings are based. Harmonisation, transparency and a level playing field are vital for the development of sustainable capital markets and trust in the market/products.</p>
<p>Q22: Is there anything else you think HM Treasury should consider in potential legislation to regulate ESG rating providers?</p>	<p>FIA EPTA members welcome the steps taken by HMT and the UK Government to support the transition towards sustainable capital markets and the development of ESG products. Regulating ESG data providers is an important step in this process as it will help with the trust in the data/products and help (end)investors make meaningful investment decisions. FIA EPTA members believe a level playing field for ESG rating providers is an important step for the development of sustainable capital markets.</p> <p>FIA EPTA members believe that HMT and the UK Government should continue with an open dialogue with other jurisdictions and international organisations as climate change is a global issue; ensuring regulation remains proportionate and balanced will help the UK remain competitive and an attractive financial centre.</p>