

5 October 2023

FIA EPTA Response to the Consultation Paper on Draft Voluntary Code of Conduct for ESG Ratings and Data Product Providers developed by the ESG Data and Ratings Working Group (DRWG)

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).

FIA EPTA welcomes the opportunity to respond to the [Consultation Paper](#) developed by the ESG Data and Ratings Working Group (DRWG). In addition, FIA EPTA members welcome the actions and responsibilities taken by the UK Government, HMT and the FCA who established the DRWG in 2022. FIA EPTA members 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.

FIA EPTA members agree with the six principles as set out by the DRWG in the consultation paper and believe this is a good place to start with creating more transparency in the ESG rating market. That being said, FIA EPTA members believe the Code of Conduct should only be developed for the short term and should not intervene or delay the development of a regulatory framework for ESG ratings and data product 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, a regulatory framework is needed. If the uncertainty around the data and products continues it will slow down the shift towards a green financial infrastructure. In addition, by moving early the UK can reinforce its position as a leading centre of financial services.

The development of a Code of Conduct will prepare ESG rating and data product providers to create more transparency in the ratings and data that they offer and will make it easier to adjust when a regulatory framework is implemented. ESG investments will grow and for the trust of financial market participants in these products, more transparency is needed. FIA EPTA members believe that the DRWG could clarify and strengthen several of the principles.

Overall, FIA EPTA members believe that the Code of Conduct should have more emphasis on the findability of the information coming from the Code of Conduct. Furthermore, what especially is important for principles 4 and 6 is the target audience for the ESG ratings and data; a professional investor needs different information than a retail investor who is looking to invest in ESG products. ESG ratings and data products providers should take this into account when they publish information.

In addition, for principle 4, FIA EPTA members believe that the transparency of the methodology and objectives of the ESG ratings is important and needs to be straightforward. It should be easy to understand which ESG methodology the data is based on. As ESG is an ever-growing concept of which more and more characteristics are part. FIA EPTA members believe that it should be clear on which ESG characteristics an ESG rating is based, for example in the case of an index, is it based on 'best in class', which means that certain companies could be part of the index that have or contribute to high carbon emissions. Or if their social and governance goals are based on global or regional targets.

FIA EPTA members do not believe there are any meaningful practical challenges arising from the overlap between this Code of Conduct for ESG rating and data product providers and existing regulations and initiatives. We believe that both should be based on existing regulations as far as possible and this Code of Conduct and later the dedicated ESG

regulation could be added without creating challenges; helping the UK remain competitive and ensuring regulation remains proportionate and balanced.

FIA EPTA members appreciate DRWGs consideration of our comments herein and welcome the opportunity to discuss further and provide additional input as required.

ANNEX

Principles:

1. Principle on Good Governance

- ESG ratings and data products providers should ensure appropriate governance arrangements are in place that enable them to promote and uphold the Principles and overall objectives of the Code of Conduct.

2. Principle on Securing Quality (Systems and Controls)

- 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.

3. Principle on Conflicts of Interest

- ESG ratings and data products providers should adopt and implement written policies and procedures designed to help ensure their decisions are independent, free from political or economic interference, and appropriately address actual or potential conflicts of interest that may arise from, among other things, the ESG ratings and data products providers' organisational structure, business or financial activities, or the financial interests of the ESG ratings and data products providers and their officers and employees.
- ESG ratings and data products providers should identify, avoid or appropriately manage, mitigate and disclose actual or potential conflicts of interest that may compromise the independence and integrity of the ESG ratings and data products providers' operations.

4. Principle on Transparency

- 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.

5. Principle on Confidentiality (Systems and Controls)

- 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.

6. Principle on Engagement (Systems and Controls)

- 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 product providers should consider what measures can be taken to implement them.
- 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 while maintaining the independence and integrity of these products.