

PRI CONSULTATION RESPONSE

**FCA ESG ratings: Proposed approach to
regulation (CP25/34)**

March 2026

An investor initiative in partnership with
UNEP Finance Initiative and UN Global Compact



About this consultation

UK government legislation has brought ESG ratings providers into the Financial Conduct Authority's (FCA) remit. The FCA recognise that ESG ratings play a critical role in influencing investment and capital allocation decisions and therefore need to be regulated under a proposed regime. The FCA's [consultation](#) on ESG ratings providers aims to increase transparency, reliability and trust in the ESG ratings market, helping investors, companies and other stakeholders to rely on ESG ratings with greater confidence.

The PRI is the leading organisation in advancing responsible investment globally. Set up with United Nations' support, our unique community contributes to stable financial markets and a more prosperous world for all. We bring together signatories, amplify their voices and provide resources and guidance for complex sustainability challenges. The six Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the FCA's call for feedback on ESG ratings.

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To inform this paper, the following group has been consulted: UK Policy Reference Group

While the policy recommendations herein have been developed to be globally applicable, the PRI recognises that the way in which policy reforms are implemented may vary by jurisdiction and according to local circumstances. Similarly, the PRI recognises that there may be circumstances where there are merits to allowing market-led initiatives to precede regulatory requirements.

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Key recommendations

The PRI welcomes the FCA's proposed approach to regulation of ESG ratings providers in the UK. Over the past few years, the growth of responsible investment practices has led to a steep increase in demand for ESG information. Many investors rely on corporate reporting, complemented by ESG ratings and data products, to assess portfolio performance and inform voting decisions and engagement practices.

We generally support the FCA's direction of travel and welcome the FCA's objectives to make ESG ratings more transparent, reliable and understandable.

The PRI's key recommendations are for the FCA to:

- Produce clearer, proportionate guidance on what constitutes a **material methodological change** related to notifications to rated entities and users.
- Set out requirements for providers to publicly disclose a minimum suite of information about each ESG rating product-line and provide users with more granular disclosures at a product-line and individual rating level as suggested.
- Ensure **consistency between data points and external frameworks** such as UK Sustainability Reporting Standards (SRS), EU ESG ratings regime, the International Capital Markets Association's (ICMA) Code of Conduct for ESG Ratings and Data Products Providers, and the Sustainability Disclosure Requirements (SDR) regime, to bring about interoperability and alignment with the UK's sustainable finance framework.
- Implement **scalable requirements** for non-profit organisations and investment consultants who are in scope of the regime, to ensure that the regime is proportional.

PRI response

ESG ratings based on clear objectives, transparent methodologies and reliable corporate data can enable investors to make better informed decisions and incentivise sustainable investments. However, transparency and integrity of the ESG ratings market should be improved. The PRI has engaged on this topic by responding to previous consultations from IOSCO ([September 2021](#)) and the European Commission ([June 2022](#)), as well as issuing a position paper on EU regulation on ESG ratings ([January 2024](#)). **PRI's engagement on ESG ratings has** reiterated the need to:

- Improve transparency among ESG ratings providers regarding their methodologies and data sources, by establishing **minimum quality and transparency standards**.
- Ensure that ESG ratings providers have **appropriate governance arrangements** in place to prevent conflicts of interest and guarantee the integrity of their ESG rating.

At present, ESG ratings providers are not subject to any specific mandatory regulatory regime in the UK. This can create risks around inconsistent transparency and governance standards across unregulated ESG ratings providers. Whilst the FCA has encouraged ratings providers to sign up to the [Code of Conduct for ESG Ratings and Data Products Providers](#), it remains voluntary. The Code of Conduct is designed to be internationally interoperable, in line with IOSCO's recommendations, so **we encourage FCA to align the future ESG rating regulation closely with it**.¹ Additionally, the FCA should consider the extent to which the Code of Conduct may be integrated into the FCA's regime and provide a mapping of interoperability between the two.

Risks around market fragmentation are strong if there are discrepancies between the EU and UK regimes, as there will be additional compliance costs for EU firms to meet UK requirements, and UK firms to meet EU requirements. The lack of clear and enforceable standards between the EU and UK could result in diminished confidence among global investors considering the effect on cross-border access to ESG ratings. Providers of

¹ IOSCO, [ESG Ratings and Data Products Providers Final Report](#) (2021)



ESG ratings may face a locational challenge where their ratings are used in both the EU and the UK, and this may result in restrictions on access to ESG ratings rather than providers seeking to qualify their ratings for use in the UK. Furthermore, research has shown that ESG ratings from different providers can disagree.² As a consequence, there can be discrepancies in the evaluation of the ESG performance of companies, funds, and portfolios. ESG rating divergence can decrease companies' incentives to improve their ESG performance and make it harder for markets to price firms' ESG performance. At the same time, given the ESG rating market is maturing, carefully balanced regulatory action is key to ensure regulation is proportionate to the size, complexity and business model of the ESG rating provider.

The FCA's overall approach is welcomed

The PRI welcomes the FCA's overall approach. Strengthening the credibility of ESG ratings providers and reducing the risk of greenwashing in the UK's sustainable finance market helps to build investor trust and supports long-term sustainable transition and growth. We support the principles-based approach, which will give ESG rating providers greater flexibility to implement the rules in a proportionate way that fit their different business models, without being overly prescriptive. Requirements for providers to publicly disclose a minimum suite of information about each ESG rating product-line and provide users with more granular disclosures at a product-line and individual rating level are welcomed.

The scope of the regime is sensible - where a rating is likely to influence an investment or stewardship decision. The FCA should clarify beyond doubt that raw ESG data is not in scope of the ESG ratings providers regime. For non-profit organisations who are in scope of the regime, the FCA could consider scalable requirements, to ensure that the regime is proportional, akin to the regime for small firms. Similarly, for investment consultants' products that are in scope of the ESG ratings regime, a concern is that some of the proposed rules assume that ESG ratings are based on data, models and assumptions. Investment consultants may not typically use data, models and assumptions within their ratings of investment manager. Often qualitative information, such as how ESG factors have affected buy/sell decisions for the portfolio, descriptions of their approach to managing overall climate risk exposures for the portfolio or engagement case studies, are supplied by investment managements in response to questions from investment consultants. Proportionality for investment consultants should be sought, given the relatively small size of their businesses and ESG ratings being a small part of revenue within this.

ESG data providers should have **appropriate governance arrangements** in place so that products on offer are free of conflicts of interest or other undue influences. We welcome FCA's specific scrutiny around conflicts of interest and the proposals to mitigate potential conflicts of interest arising.

Engagement between ESG ratings providers and the assessed entities is important and should be encouraged, without affecting the independence of the ESG rating provider assessments. Under IOSCO's recommendations, publishing terms of engagement describing how and when the ESG rating and data providers will typically engage with the entities covered, including when information is likely to be requested and the opportunities available to the rated entity for review.³ This is also aligned with the Principle on Engagement in the Code of Conduct for ESG Ratings and Data Products Providers.

Clarifying requirements related to the notifications of changes in a rating product's methodology

Considering the FCA's strategic objective to promote effective competition, some investors have highlighted that several elements of the proposal risk creating unintended effects on innovation. In particular, the requirement on notifying methodology changes and determining materiality when methodologies are

² Berg, Kolbel, Rigobon, [Aggregate Confusion: The Divergence of ESG Ratings](#) (2022)

³ IOSCO, [ESG Ratings and Data Products Providers Final Report](#) (2021)



updated. In practice, ESG ratings methodologies evolve frequently as data quality improves, standards develop and analytical approaches mature.

Requiring extensive notification and communication obligations for a broad range of methodology updates could create significant operational burdens, especially for smaller or specialist providers. This may put certain service providers' models at risk and drive further market consolidation. There is also a potential misalignment between providers' technical assessments of what constitutes a material methodology change and clients' perceptions of materiality. There is a risk that over notification could delay providers' focus on the credibility of ratings and their issuance to clients.

For material changes, ESG providers should be required to communicate changes to their methodologies and explain the impact these changes have on the quality, coverage, and distribution of ratings. Yet, ESG firms need clear, proportionate guidance on what constitutes a **material change**, to avoid uncertainty and over-notification risks that would not meaningfully improve user's understanding of their ESG ratings. The FCA should clarify that relatively minor business as usual analytical updates should not trigger a notification to rated entities. It should also be clarified whether indirect users of material changes to a methodology should be notified. Standardisation of the materiality threshold applied to methodological changes would ensure proportionality. The FCA could provide examples of what would constitute a material change and requires notification, and what constitutes a minor change that would not impact the overall rating or require notification. In the case of minor changes, disclosure as opposed to pro-active notification should suffice.

Improving transparency requirements to enable the flow of decision-useful information to investors

Appropriate disclosure requirements on methodologies of ESG ratings are essential to enable investors to make better informed investment decisions. The enhanced transparency requirements that the FCA has proposed will be an important mechanism for investors to grapple with what a rating is designed to measure and how it incorporates various ESG factors. We support the FCA's proposed minimum public disclosures, particularly the requirement to disclose the product's objective; the summary methodological disclosures covering data sources, weighting, aggregation and main assumptions; the requirement to disclose whether ratings are expressed as absolute values or relative to a peer group; the disclosure of the data and nature of the last methodology change; and the requirements to disclose conflicts of interest.

ESG ratings providers have a responsibility to provide sufficiently detailed methodologies of their ESG ratings to enable investors to determine whether they are suitable for their investment strategies. Concerns over ESG data reliability may also hinder policy makers from monitoring and tracking private sector contributions and progress related to certain policy objectives on sustainability.⁴ This reinforces the role that regulation can play to improve market confidence and better ensure the integrity of ESG ratings. For example, studies have highlighted a risk of ESG scores having a potential bias against firms that prioritise long-term growth over immediate returns.⁵

Empirical findings from the OECD highlights that measurement divergence is the main driver of rating discrepancies, accounting for 56% of divergence across products.⁶ This signals that ESG rating products tend to diverge predominantly based on their choice of metrics, underlying the measurement of ESG performance rather than divergence at the level of scoring methodologies. We welcome the FCA's efforts to ensure more clarity and rigour around ESG ratings, which will make it easier to compare funds, companies, and products across providers. Additionally, as law firm Freshfields notes, the "ability to deal with applications ahead of the

⁴ OECD, [Behind ESG ratings – unpacking sustainability metrics](#) (2025)

⁵ Balan et al. [The black-box of ESG scores from rating agencies: do they genuinely reflect sustainability practices, or are they disproportionately shaped by financial performance?](#) (2025)

⁶ OECD, [Behind ESG ratings – unpacking sustainability metrics](#) (2025)



new approval requirement coming into effect should allow the FCA to manage the authorisation process in a timely and orderly manner” which is also positive.⁷

Ensuring interoperability and alignment with the UK’s sustainable finance framework

Policy makers and standard setters are working towards greater consistency and comparability of ESG ratings being disclosed across jurisdictions. The PRI welcomes that the proposals are designed to be **consistent with international standards**, particularly the IOSCO recommendations, to support cross-border coherence and reduce the risk of regulatory fragmentation. Harmonising corporate reporting standards for sustainability disclosures through UK Sustainability Reporting Standards (SRS) should go some way to addressing this, and the final SRS should complement the ESG ratings regime. In practice, **UK SRS should improve the quality, consistency and decision-usefulness of sustainability disclosures, whilst the ESG ratings regulation should improve the transparency, governance and integrity of the assessments.**

The FCA’s ESG ratings regime should be aligned with the UK’s existing wider sustainable finance framework to ensure full coherency for market participants. We encourage the FCA to offer further clarity on how the regime will align with other sustainable finance initiatives, such as SDR. We particularly support that the FCA exclude funds labelled under SDR from the scope of its ESG ratings regulation, as labelled funds must already meet a ‘robust, evidence-based standard of sustainability.’ This would also align well with the EU regime’s which also excludes products labelled under SFDR and EU taxonomy disclosures.⁸

Equivalency with the EU’s regime should be prioritised, to enable cross-market access. Considering the EU’s ESG ratings regulation will come into force in July 2026, and the UK regime not expected until June 2028, there is a risk of some divergence in scope and implementation. It would be helpful to align these two regimes on key principles such as transparency, governance and conflict management. This would make for a more coherent sustainable finance ecosystem.

The **2026 UK Stewardship Code** restructures service provider principles to better reflect the distinct roles different providers play in supporting client stewardship. The previous six generic principles have been consolidated into four targeted principles. The new structure introduces greater specificity by creating separate principles for proxy advisors, investment consultants, and engagement providers rather than applying generic requirements across all service types. This role-based application means service providers report only on principles relevant to their specific services. All service providers are also required to report against the Policy and Context Disclosure elements set out in the Code for service providers. **The Stewardship Code and ESG ratings regime should operate as complementary frameworks, with ESG ratings providers able to inform engagement prioritisation and monitoring of stewardship activities.**

We support that the regime will capture UK-based ESG ratings providers whether they provide ESG ratings to clients in the UK or overseas. ESG ratings providers based outside of the UK should not be in scope of the FCA’s regime.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of the FCA further to the ESG ratings regime in the UK.

Please send any questions or comments to policy@unpri.org.

More information on www.unpri.org

⁷ Freshfields, [ESG ratings providers: UK legislation will bring sector within FCA regulation](#) (2025)

⁸ UK Finance [response](#) to HM Treasury’s draft statutory instrument on ESG ratings regulation (2025)