

PRI CONSULTATION RESPONSE

FSCA ESG Rating Services and Data Providers

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An investor initiative in partnership with
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About this consultation

The Financial Sector Conduct Authority (FSCA) has published a [Discussion Paper on ESG Rating Services and Data Providers](#) as part of its Sustainable Finance Programme of Work. The paper recognises the growing role that ESG ratings and ESG data products play in investment decision-making, risk management, stewardship, product design and sustainability disclosures within South Africa’s financial sector. It also acknowledges increasing concerns globally regarding transparency, governance, methodological divergence and conflicts of interest within the ESG ratings market.

The PRI welcomes the FSCA’s consultative and evidence-based approach to this important topic. As investor use of ESG ratings and data products continues to grow, it is important that these tools are reliable, transparent and decision-useful. Investors rely on corporate reporting, complemented by third-party ESG data and ratings products, to assess portfolio risks and opportunities, support stewardship activities and meet reporting obligations. ESG ratings based on clear objectives, transparent methodologies and reliable underlying data can enable better informed investment decisions and support the transition to a more sustainable financial system.

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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 FSCA's proposed approach to considering a regulatory framework for ESG ratings services and ESG data providers in South Africa. Over the past few years, the growth of responsible investment practices has led to a significant increase in demand for ESG information. Many investors rely on corporate reporting, complemented by ESG ratings and data products, to assess portfolio risks and opportunities, support stewardship activities, and inform investment decision-making.

We generally support the FSCA's direction of travel and welcome the FSCA's focus on transparency requirements, governance standards, conflicts of interest management, proportionality, and alignment with international best practice. A well-calibrated framework can strengthen investor confidence while supporting the continued development of South Africa's sustainable finance market.

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

- Prioritise **transparency requirements** by requiring providers to publicly **disclose a minimum suite** of information on methodologies, objectives, data sources, assumptions, limitations, and material methodology changes at product level.
- Establish **proportionate governance** and conflicts management standards to ensure provider independence, robust internal controls, and effective identification, mitigation and disclosure of conflicts of interest.
- Clearly define the scope of the regime by **distinguishing** ESG ratings, ESG data products, research products, and internal proprietary assessments used by investors for their own investment processes.
- Ensure **interoperability with international frameworks** such as IOSCO principles and relevant overseas regimes, reducing fragmentation, duplication and unnecessary costs for users and providers.
- Adopt a **phased and proportionate approach** that reflects the size and maturity of the South African market, supports innovation and competition, and avoids unnecessary barriers to entry.

PRI response

Introduction

Over the past several years, the continued growth of responsible investment practices has significantly increased investor demand for high-quality ESG information. Investors increasingly rely on a combination of corporate disclosures, third-party ESG ratings, data products, research tools, and internal analytical frameworks to assess risks and opportunities across portfolios, support stewardship and engagement activities, meet reporting obligations, and align investment strategies with long-term sustainability outcomes. As sustainable finance continues to develop in South Africa, the role of ESG ratings services and ESG data providers is also expected to expand.

The PRI has engaged extensively on ESG ratings regulation across multiple jurisdictions, including the [IOSCO](#)¹ in [September 2021](#), the European Commission ([June 2022](#)), issued a position paper on EU regulation on ESG ratings ([January 2024](#)) and recently published a [consultation response in the UK](#) on the Financial Conduct Authority's (FCA) ESG ratings regulation. Across these consultations, PRI has consistently supported reforms that improve transparency, governance, conflicts management and market integrity, while remaining proportionate and supportive of innovation.

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



The PRI recognises that ESG ratings and data products can provide an important service to investors when they are based on clear objectives, transparent methodologies, reliable data inputs, and sound governance arrangements. These products can help investors better understand financially material ESG risks, identify opportunities linked to long-term structural trends, prioritise stewardship actions, and strengthen overall decision-making. At the same time, concerns have emerged globally regarding the functioning of the ESG ratings market, including inconsistent methodologies, limited transparency, conflicts of interest, and the risk that some users may rely on ratings mechanistically without sufficient due diligence.

South Africa has an opportunity to design a practical and proportionate framework that reflects domestic market realities while aligning with emerging international norms. Given the relatively developing nature of the local ESG ecosystem, regulatory intervention should focus on minimum standards, clarity of scope and interoperability with international approaches.

The FSCA's overall approach is welcomed

The PRI welcomes the FSCA's consultative, evidence-based and forward-looking approach to this topic. The [Discussion Paper](#) appropriately recognises that ESG ratings and data products are becoming increasingly relevant within financial markets and that, as their use grows, greater policy attention is justified. The paper also identifies many of the challenges that have emerged internationally, including a lack of transparency in methodologies, inconsistent outcomes between providers, concerns regarding conflicts of interest, and uncertainty among users about what ESG ratings actually measure.

The PRI supports the FSCA's intention to explore a proportionate regulatory environment that strengthens confidence in ESG products while supporting market development. South Africa has the opportunity to learn from the experience of other jurisdictions and develop a framework that addresses key market risks without unnecessarily constraining innovation or limiting competition. Regulation should not be pursued as an end in itself, but rather as a means to improve trust, accountability, comparability, and investor protection in a growing market segment.

A carefully calibrated framework can also support South Africa's broader sustainable finance agenda by encouraging better-quality information flows between corporates, data providers, and investors. This would help improve capital allocation decisions, strengthen stewardship practices, and support the resilience and competitiveness of the domestic financial system.

Scope of the regime should be clear and proportionate

A central issue in any future framework will be the definition of scope. The PRI encourages the FSCA to **clearly distinguish** between ESG ratings, ESG data products, investment research, benchmark products, and internal proprietary assessments developed by institutional investors for their own use. These activities often serve different purposes, involve different business models, and present different market risks. A lack of clarity in scope could create confusion, regulatory overlap, and unintended consequences.

In particular, ESG ratings that provide opinions, rankings, or scored assessments are materially different from raw data products or analytics tools that simply provide underlying metrics or datasets. Similarly, internal ESG assessments developed by asset managers for use in investment decision-making or stewardship processes should not automatically be treated in the same way as commercial third-party ratings sold into the market. Bringing internal tools into scope could discourage innovation and weaken the integration of ESG factors into mainstream investment processes.

The PRI therefore recommends that the FSCA adopt clear, principles-based definitions supported by practical examples. This would improve legal certainty for market participants, ensure that regulation is targeted at activities where risks are greatest, and avoid imposing unnecessary burdens on entities whose activities do not warrant direct supervision.



Transparency requirements should be prioritised

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 sustainability².

Improved transparency should be the cornerstone of any future framework. One of the most common concerns expressed by investors is that ESG ratings can sometimes function as “black boxes,” where users receive scores or rankings without sufficient understanding of how they were derived. This limits the ability of investors to compare providers, assess fitness for purpose, or incorporate ratings appropriately into investment processes.

Providers should therefore be required to disclose, in a clear and accessible manner, what each rating product is intended to measure, whether scores are relative or absolute, what factors are considered, how weightings are determined, what data sources are used, and how missing data, estimates, or assumptions are treated. Users should also be informed about the frequency of updates, material methodology changes, and the key limitations of the product.

Such transparency would improve market discipline and help users make more informed choices. It would also reduce the risk of over-reliance or misuse by making clear that different products may measure different concepts, such as financial risk exposure, sustainability impact, transition readiness, or governance quality. Transparency should therefore be seen not only as a disclosure exercise, but as a critical component of market integrity.

Governance and conflicts of interest

The PRI also supports **minimum governance requirements for ESG ratings and data providers**³. Given the increasing influence of these products in investment markets, it is important that providers maintain strong internal systems to protect independence, objectivity, and analytical quality. This includes clear governance structures, quality assurance controls, documented methodologies, and accountability mechanisms for senior management.

Conflicts of interest are a particularly important area for attention. Some providers may operate multiple business lines, such as ratings, consulting, benchmarks, index products, or data services. Where such overlaps exist, users should have confidence that commercial interests do not compromise analytical independence. Appropriate safeguards may include internal separation of functions, disclosure of relevant commercial relationships, and clear conflict-management policies. Providers should also maintain processes that allow rated entities to flag factual inaccuracies, while ensuring that legitimate engagement does not undermine provider independence. Well-designed governance requirements can therefore strengthen trust in ESG products without dictating outcomes or interfering with methodological judgement.

Avoid prescribing a single methodology

Regulatory approaches should avoid imposing a single standardised ESG methodology or a universal ratings scale. ESG ratings can serve a variety of legitimate purposes, including assessing financially material ESG risks, measuring sustainability outcomes, comparing sector peers, or evaluating alignment with climate transition pathways. Different methodologies may therefore be appropriate depending on the intended use of the product.

² OECD, [Behind ESG ratings – unpacking sustainability metrics](#) (2025)

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



Some divergence between providers is not necessarily evidence of market failure. In many cases, differing results reflect different objectives, assumptions, data treatments, time horizons, or views on materiality. Diversity of methodologies can be valuable in a functioning market, provided users are able to understand those differences.

For this reason, regulation should focus on transparency, governance, and accountability rather than forcing methodological convergence. Attempting to prescribe one model may reduce innovation, entrench incumbents, and diminish the usefulness of ratings for specialised purposes. Investors are generally best served by a competitive market offering a range of clearly explained products.

Underlying corporate disclosures remain essential

The PRI emphasises that the quality of ESG ratings and data products is closely linked to the quality of underlying corporate disclosures. Even the most sophisticated provider cannot produce consistently robust outputs if issuer reporting is incomplete, inconsistent, outdated, or difficult to compare across companies and sectors.

The PRI therefore encourages continued progress in South Africa on sustainability reporting, climate-related disclosures, and broader corporate transparency. Improved issuer disclosures would reduce reliance on estimates and proxies, improve comparability across firms, lower data collection costs, and enhance the reliability of ratings products available to investors.

This means that policy reform in relation to ESG ratings should not be viewed in isolation. Strengthening corporate disclosure standards and strengthening the ESG information provider ecosystem are complementary agendas. Together, they can help create a more efficient and credible sustainable finance market.

Costs and proportionality

The PRI recognises that any new requirements may create costs for providers and, indirectly, for users of ESG products. These may include investments in compliance systems, methodology documentation, governance processes, data controls, and regulatory reporting. If poorly designed, regulation could increase barriers to entry, reduce competition, and lead to higher costs for investors.

For this reason, any South African framework should be proportionate, risk-based, and sensitive to market realities. Requirements should reflect the size, scale, complexity, and influence of providers. Smaller or niche providers may warrant different treatment from larger systemic providers. A phased implementation model may also be appropriate, allowing market participants time to adapt.

The FSCA should also consider interoperability with major international frameworks where feasible. This would help avoid duplication for cross-border providers and preserve access for South African users to global ESG products. A proportionate framework can therefore improve standards while limiting unnecessary cost escalation.

ESG ratings should not be used mechanistically

Consistent with the views of IOSCO and other international bodies, mechanistic reliance on ESG ratings should be avoided. ESG ratings should be one input among many in investment decision-making rather than a substitute for investor judgement, internal research, or engagement with issuers.

Responsible investors typically combine ESG ratings with fundamental analysis, proprietary research, direct company engagement, stewardship insights, sector expertise, and portfolio objectives. This broader approach is important because no single rating can fully capture the complexity of ESG risks, opportunities, or impacts across all contexts.



Regulation should therefore reinforce the principle that ratings are tools to inform judgement rather than automatic buy, sell, or exclusion triggers. This would help reduce misuse while encouraging more sophisticated and decision-useful application of ESG information.

Conclusion

The FSCA's leadership in considering how best to strengthen the ESG ratings and data provider ecosystem in South Africa is welcomed. As the use of these products continues to grow, there is a clear opportunity to improve market confidence, transparency, and investor protection through a carefully calibrated framework.

The most effective approach would prioritise clear scope definitions, strong transparency standards, proportionate governance and conflict-management requirements, interoperability with international norms, and continued improvements in issuer sustainability disclosures. At the same time, regulation should preserve innovation, avoid unnecessary burdens, and recognise that ESG ratings are one tool among many used by investors.

South Africa is well positioned to develop a practical and credible framework that supports both market integrity and the continued growth of sustainable investment. The PRI would welcome continued engagement with the FSCA as this important policy work progresses. Regulation should therefore reinforce the principle that ratings are tools to inform judgement rather than automatic buy, sell, or exclusion triggers. This would help reduce misuse while encouraging more sophisticated and decision-useful application of ESG information.

Explore:

[IOSCO Consultation Report on ESG Ratings and Data Products Providers](#)

[European Commission Consultation on the functioning of the ESG Ratings Market in the EU and on the Consideration of ESG Factors in Credit Ratings](#)

[Position Paper on EU regulation on ESG ratings](#)

[PRI response to the FCA's proposed approach to regulation on ESG ratings](#)

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 FSCA further to the ESG Rating Services and Data Providers regime in South Africa.

Please send any questions or comments to policy@unpri.org. More information on www.unpri.org