

The Society of Pension Professionals (SPP) response to the FCA Consultation Paper on ESG (Environmental, Social, Governance) ratings: Proposed approach to regulation

1. Executive summary

- 1.1. **The SPP agrees with the proposed approach not to apply the Duty to rating providers; agrees with the FCA’s approach to applying the high-level standards to rating providers; and believes that the current regulatory regimes for existing regulated products and services sufficiently address the risk of harm.**
- 1.2. **The SPP believes that the minimum public disclosures should include general information on criteria used for establishing fees charged to clients.**
These should specify the various elements taken into consideration and general information on the business/payment model.
- 1.3. **To reduce administrative burdens on ESG rating providers, information on the main risks of conflicts of interest and the steps to mitigate them should be included as part of the minimum public disclosures rather than a stand-alone disclosure.**
This will also facilitate public understanding given there will only be one disclosure document to look at rather than multiple disclosure documents.
- 1.4. **The SPP supports the FCA’s objective of enhancing transparency and providing robust reliable ratings and minimum disclosures for ESG rating providers but there are several practical challenges that could impact implementation timelines and experience.**
The impact on smaller providers, data and legal and governance all need to be fully considered.
- 1.5. **The periodic review of ESG ratings process envisaged within the Quality Control section should be at least every 12 months, subject to exceptions already catered for under the proposed rules Requiring an annual review of the ESG ratings process.**
This should help to ensure that the minimum public disclosures are kept up to date.
- 1.6. **The SPP agrees with the proposed requirement to give rated entities and users notice of material changes to a methodology.**
However, clarity as to what constitutes a “material change” is essential in order to reduce or eliminate incidences of over-notification; avoid unnecessary costs, inconsistent application and reduced comparability.
- 1.7. **The SPP welcomes the proposed perimeter guidance to help firms understand when FCA authorisation might be required.**
However, we believe improvements could be made in relation to certain aspects of the guidance.
- 1.8. **The proposed FCA threshold to define larger ESG rating providers to be a forecast annual revenue of £250,000 or more appears somewhat arbitrary.**
There is no explanation as to how it was arrived at beyond stating that it was based, “...on market analysis and engagement with stakeholders” so it is not possible to agree or disagree with the precise figure.

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2. Consultation response

- 2.1. **Question 1: Do you agree with the proposed approach not to apply the Duty to rating providers? If not, please specify what you disagree with and why.**
- 2.2. Yes, the SPP agrees with this approach.
- 2.3. **Question 2: Do you agree with our approach to applying the high-level standards to rating providers? If not, please specify what you disagree with and why.**
- 2.4. Yes, the SPP agrees with this too.
- 2.5. **Question 3: Do you think existing regulatory regimes sufficiently address the risk of harm? If not, which areas do you think need to be addressed and why?**
- 2.6. The SPP believes that the current regulatory regimes for existing regulated products and services sufficiently address the risk of harm. Whilst we welcome the FCA's decision to assess whether it needs to improve standards in existing regulatory regimes to address the risk of harm, we do not expect significant gaps to be identified given that existing regulated products and services should already be subject to the same (or even higher) level of regulatory standards that will be expected of rating providers. Furthermore, such assessment should be reviewed if there are changes to regulatory regimes that will impact existing regulated products and services.
- 2.7. **Question 4: Do you agree with the proposed minimum public disclosures listed in Table 2? If not, please specify what you disagree with and why.**
- 2.8. Yes, the SPP agrees with the proposed minimum public disclosures listed in Table 2. However, we believe that the requirement to disclose the breakdown of the factors (E, S and/or G) assessed by the methodology should be more explicit regarding the requirement to disclose the key performance indicators (KPIs) used to assess the issues covered within each of the relevant factors. Research has shown that divergence in ratings amongst rating providers is largely driven by measurement divergence (i.e. ESG ratings providers measuring the same ESG attributes using different key performance indicators (KPIs)), it is important that the rules are explicit regarding the requirement to disclose the relevant KPIs. Furthermore, similar requirements already exist under the current Code of Conduct for ESG Ratings and Data Products Providers so should not really be seen as a new transparency requirement.
- 2.9. **Question 5: Are there any key minimum public disclosures missing from the proposed list in Table 2? If so, please specify which disclosures and why they should be included.**
- 2.10. Yes. We believe the minimum public disclosures should include general information on criteria used for establishing fees charged to clients, specifying the various elements taken into consideration and general information on the business/payment model. To reduce administrative burdens on ESG rating providers, it is also our preference for the information on the main risks of conflicts of interest and the steps mitigate them to be included as part of the minimum public disclosures rather than a stand-alone disclosure as currently envisaged under the proposed rules. This will also facilitate public understanding given there will only be one disclosure document to look at rather than multiple disclosure documents.
- 2.11. **Question 6: Do you agree with the proposed disclosures for direct users and rated entities and approach to onward sharing? If not, please specify what you disagree with and why.**
- 2.12. The SPP has no comments to make here.

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- 2.13. **Question 7: Are there any key minimum disclosures missing from the proposed list in Table 3? If so, please specify which disclosures and why they should be included.**
- 2.14. The SPP has no comments to make here.
- 2.15. **Question 8: Do you agree with our general expectations for transparency? If not, please specify what you disagree with and why.**
- 2.16. Yes, the SPP agrees with the FCA's general expectations for transparency.
- 2.17. **Question 9: Overall, do you expect any significant challenges in implementing the proposed approach to transparency and minimum disclosures? If so, please specify which elements and the nature of the challenges.**
- 2.18. Whilst the SPP supports the FCA's objective of enhancing transparency and providing robust reliable ratings and minimum disclosures for ESG rating providers, there are several practical challenges that could impact implementation timelines and experience.
- 2.19. Impact on smaller providers
Implementing systems to produce, review, and update disclosures regularly will require significant investment in technology, compliance oversight, and skilled personnel. Smaller providers may face disproportionate costs, potentially affecting market competition.
- The technical nature of ESG rating methodologies creates a balance between disclosing sufficient detail without compromising intellectual property or competitive advantage. It may take time for firms to develop new frameworks for "appropriate transparency" that balance regulatory expectations with commercial sensitivities.
- 2.20. Data
It is also worth noting that ESG data remains fragmented and inconsistent across jurisdictions. Providers may struggle to meet disclosure requirements where issuer data is incomplete or unreliable. This challenge is particularly acute for smaller firms with limited access to global data sources.
- 2.21. Legal & Governance
Disclosures include governance and conflict-of-interest management arrangements and aligning these disclosures with global standards (IOSCO, EU benchmarks) will require additional effort and coordination. Increased transparency heightens exposure to litigation for misrepresentation or omissions. Firms will need robust internal controls and legal reviews to mitigate these risks.
- 2.22. **Question 10: Do you agree with the proposed governance approach for rating providers? If not, please specify what you disagree with and why.**
- 2.23. The SPP has no comments to make here.
- 2.24. **Question 11: Do you agree with the proposed approach to systems and controls, including: a. Quality control and methodology b. Data quality and accuracy c. Record keeping d. Personal transactions. If not, please specify which elements you disagree with, what alternative approach you would suggest and why.**
- 2.25. Yes, although our preference is for the rules to be explicit that the periodic review of ESG ratings process envisaged within the Quality Control section should be at least every 12 months, subject to exceptions already catered for under the proposed rules Requiring an annual review of the ESG ratings process, will hopefully help in ensuring that the minimum public disclosures are kept up to date.

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- 2.26. **Question 12: Do you agree with the proposed requirement to give rated entities and users notice of material changes to a methodology? Should any other stakeholders also be given this notice?**
- 2.27. This appears to make sense because it enhances transparency - advance notice of material changes helps users understand how and why a rating may evolve, rather than being surprised by unexplained score shifts that could affect investment decisions or regulatory compliance.
- 2.28. It also enhances decision making because for users like investors, asset managers, or benchmark administrators, methodology changes can materially change risk assessments, portfolio decisions or engagement strategies.
- 2.29. Requiring notice of material changes of methodology can also help rated entities as they need to understand how changes affect their scores and disclosures so they can respond appropriately in their own reporting, investor communications, or sustainability strategies.
- 2.30. However, clarity as to what constitutes a “material change” is essential in order to reduce or eliminate incidences of over-notification; avoid unnecessary costs, inconsistent application and reduced comparability.
- 2.31. **Question 13: Do you agree with our proposed approach to conflicts of interest? If not, please specify what you disagree with and why.**
- 2.32. Whilst we believe that ESG rating providers should have an effective and transparent conflicts of interest policy, we also believe that the disclosure requirements relating to this should not be separate from the wider minimum public disclosures as per Table 2. Please also refer to our response to Question 5.
- 2.33. **Question 14: Do you expect any challenges in implementing the proposed rules? If so, please specify which rules and the nature of the challenges.**
- 2.34. The SPP has no comments to make here.
- 2.35. **Question 15: Do you agree with the proposed approach for stakeholder engagement? If not, please specify what you disagree with and why, and if you have identified any gaps.**
- 2.36. The SPP has no comments to make here.
- 2.37. **Question 16: Do you agree with the proposed approach for complaints handling? If not, please specify what you disagree with and why.**
- 2.38. The SPP has no comments to make here.
- 2.39. **Question 17: Do you expect any significant challenges in implementing the proposed approach for stakeholder engagement or complaints? If so, please specify which elements and the nature of the challenges.**
- 2.40. The SPP has no comments to make here.
- 2.41. **Question 18: Do you agree with our proposal to not extend the Financial Ombudsman’s compulsory jurisdiction to enable complaints about providing an ESG rating to be considered by it? If not, please specify what you disagree with and why.**
- 2.1. We agree with this approach on the basis that (a) we agree that users of ESG rating services will primarily be institutional clients, and (b) the FCA is proposing to introduce bespoke engagement and complaints-handling requirements for ESG rating providers (and to retain supervisory and enforcement powers in respect of any shortcoming by such a provider in complying with those requirements).

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- 2.2. In responding in these terms, we note that trustees of trusts with a net asset value of less than £5m are eligible complainants under DISP 2.7.3 and the draft amendments to DISP set out in Annex G of Appendix 1 to CP25/34 will mean that trustees of such micro schemes will be ineligible to complain about ESG rating provision.
- 2.3. However, we assume that such trustees will be protected by the bespoke requirements which the FCA is proposing to introduce (i.e. those requirements will not be limited to those who are not eligible complainants but will instead apply to a complaint from any person in respect of providing an ESG rating).
- 2.4. **Question 19: Do you agree with the Financial Ombudsman’s proposal to not extend its voluntary jurisdiction to cover complaints about providing an ESG rating? If not, please explain why.**
- 2.5. We agree with this for the same reasons as set out above in response to Question 18.
- 2.6. **Question 20: Do you agree with the proposal to not provide FSCS cover? If not, please explain why.**
- 2.7. The SPP is unable to provide a definitive answer without further explanation for this proposal. This is because “advising on investments” is within “designated investment business” which itself is within the definition of the term “protected investment business” in COMP 5.2.1 (which prescribes “protected claims” for FSCS purposes).
- 2.8. **Question 21: Do you agree with our approach of applying the standard (Core) SM&CR to ESG rating providers as it applies to most other FCA regulated firms? If not, what alternative approach would you propose?**
- 2.9. On the SM&CR fit and proper certification for individuals for regulated activities as it relates to ESG ratings, currently ESG professionals emerge from different backgrounds including but not limited to investment banks, pension funds, asset managers, climate NGOs, academia, data providers and other areas resulting in non-standardised approaches to ESG ratings.
- 2.10. Requiring standardised qualifications across the industry (e.g. CFA UK Certificate in ESG Investing, GARP Climate Risk Certification or equivalents) might be one way to ensure the standardisation of ESG skillsets and thereby ESG ratings as well.
- 2.11. **Question 22: Does the proposed perimeter guidance provide sufficient support to help firms understand when FCA authorisation might be required? If not, what else should the guidance cover?**
- 2.12. The SPP welcomes the proposed perimeter guidance to help firms understand when FCA authorisation might be required. However, we believe improvements could be made in relation to certain aspects of the guidance.
- 2.13. In relation Q13 (What does ‘likely to influence a decision to make a specified investment’ mean?), we believe the proposed answer falls short as it only provides limited and straightforward examples and does not address cases wherein ratings are used in marketing materials (e.g. comparing ESG profile of a fund against an index), sustainability reports and/or internal portfolio tools. Without clear standards and given the subjective nature of the phrase ‘likely to influence’, ESG rating providers may differ wildly in how they interpret whether they “influence” investment decisions leading to inconsistent application across rating providers. Inconsistent application will undermine comparability.
- 2.14. **Question 23: Do you agree with our proposed application fee structure for ESG rating providers? If not, please explain why you disagree.**
- 2.15. Yes, the fee structure appears reasonable.

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- 2.16. **Question 24: Do you agree that the threshold to define larger ESG rating providers should be a forecast annual revenue of £250,000 or more? If not, please explain why you disagree.**
- 2.17. The figure of £250,000 appears somewhat arbitrary given there is no explanation as to how it was arrived at beyond stating that it was based, "...on market analysis and engagement with stakeholders" so it is not possible to agree or disagree with the precise figure.
- 2.18. **Question 25: Do you agree with our proposed application of certain existing SUP rules and guidance to rating providers? If not, please specify what you disagree with and why.**
- 2.19. The SPP agrees with the proposed application of the SUP rules and guidance to rating providers.
- 2.20. **Question 26: Do you have any comments on our proposal to apply the same approach to enforcement investigations and actions to rating providers as we do to other regulated firms, as set out in ENFG? If yes, please specify.**
- 2.21. Applying the same approach to enforcement investigations and actions to rating providers as the FCA does to other regulated firms should help to ensure consistency and provide clarity and is therefore to be welcomed.
- 2.22. **Question 27: Do you have any comments on our proposal to follow the same procedures for decision-making and imposing penalties in relation to rating providers and their personnel as set out in DEPP? If yes, please specify.**
- 2.23. The SPP does not have any additional comments other than to say that applying the same procedures as set out in DEPP appears to be appropriate.
- 2.24. **Question 28: Do you have any additional comments on our proposed rules and guidance set out in this CP, including where we could take an alternative approach, or think there are any other topics we should consider? If yes, please specify.**
- 2.25. The SPP has no additional comments to make here.
- 2.26. **Question 29: We have aimed to make the proposed rules in Appendix 1 as clear and straightforward as possible. Are there any specific areas you found difficult to interpret or apply? If so, please identify the relevant rule(s) and explain the difficulty.**
- 2.27. The SPP has no additional comments to make here.
- 2.28. **Question 30: Do you have any comments on our cost benefit analysis?**
- 2.29. The SPP does not have any comments relating to the cost benefit analysis.

3. About The Society of Pension Professionals

- 3.1. The SPP is the representative body for a wide range of providers of advice and services to pension schemes, trustees and employers. Our work harnesses the expertise of our membership, striving for a positive impact on pension scheme members, the pensions industry and its stakeholders.
- 3.2. The breadth of our members is a unique strength for the SPP. Our membership of 90 corporate organisations employs over 20,000 pension professionals including actuaries, lawyers, professional trustees, DC consultants, investment managers, providers, administrators, covenant assessors, and other pension specialists.

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4. Further information

- 4.1. For more information about this consultation response please contact SPP Director of Policy & PR at: phil.hall@the-spp.co.uk or telephone the SPP on 0207 353 1688.
- 4.2. To find out more about the SPP please visit the SPP web site: <https://the-spp.co.uk/>
- 4.3. Connect with us on LinkedIn at: <https://www.linkedin.com/company/the-society-of-pension-professionals/>
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