In ACCORD

SEND: cp25-34@fca.org.uk by 31/03/2026

Feedback CP25/34*ESG (Environmental, Social, Governance) ratings: Proposed approach to regulation**

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INTRODUCTION:

In Accord (trading name of ESG Accord) welcomes the opportunity to comment on CP25/34 and to provide views on the proposed approach to improving transparency and trust in the ESG ratings market.

While this consultation relates to ESG rating providers, we note that ESG ratings play an increasingly important role in shaping investment decisions and, ultimately, consumer outcomes. As such, proportionate and well-designed regulation in this area is important for the effective functioning of the investment distribution chain.

In Accord is a technical compliance firm specialising in sustainability. In Accord offer a range of services;

Support for advisers, DFMs, networks, platforms, product providers and educators through four connected areas of work:

- Accord Consulting. Practical and strategic support for advice firms, DFMs and fund groups
- Accord Initiative. Partnered by the industry, free, open-access tools and templates for the advice community
- Accord Academy. CPD-accredited courses for the modern advice landscape
- Accord Talks. Industry conversations and thought leadership

Relevant groups and panels:
- Member of the FCA Disclosures and Labels Advisory Group (DLAG)
- Member of the Association of Professional Compliance Consultants
- Member of the UK Sustainable Investment and Finance Association
- Elly Dowding and Lee Coates OBE of In Accord are PFS Sustainable Financial Advice Panel members
- Lee Coates OBE of In Accord is a member of the FCA's industry-led working group: Advisers' Sustainability Group
- Elly Dowding is a member of the FCA Sustainable Finance Advisory Committee

In Accord (Accord Initiative) has a wide range of industry partners, sponsors and consultancy clients - as well as advice firm contacts - and holds a high number of discussions based on and around the Consumer Duty, sustainability and distribution chain.

CP25/34 COMMENTS:

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.

Response to Question 1:

Under the Treasury's legislative design and the proposed FCA regime, ESG rating providers will be regulated for transparency, governance, conflicts and controls, but they are not subject to the Consumer Duty, because they provide wholesale inputs rather than retail financial services.

We note:
- The CP25/34 proposes that ratings providers cannot treat clients as eligible counterparties (receiving less investor protection and assumed high level of knowledge),
- The anti-greenwashing rule applies to ratings providers,
- That rating providers should recognise that the Duty may apply to other firms in the distribution chain,
- The CP proposals encourage providers to consider the Duty when they conduct their business

We also note the Compatibility statement in Annex 3 of the CP25/34 regarding the general principle that consumers should take responsibility for their decisions and accept that proposals should provide consumers with more transparent information on how ESG ratings work and support providers to produce more reliable products.

Implications for consumers

- Consumers increasingly rely (indirectly) on ESG ratings because they shape:
    - fund composition,
    - marketing of “sustainable” products,
    - benchmarks,
    - screening criteria.

Yet, consumers cannot rely on Consumer Duty protections because the Duty stops at the regulated firm using the ratings, not the entity producing them.

With this in mind, we broadly agree with the proposed approach not to apply the Consumer Duty directly to ESG rating providers, recognising their position as providers of wholesale inputs.

However, we encourage the FCA to consider how the regime will operate in practice across the distribution chain, particularly where ESG ratings play a significant role in shaping consumer-facing products.

In particular:
- whether there is a need for duty-aligned expectations for firms that rely heavily on ESG ratings in product design and distribution, and
- how the FCA intends to monitor potential consumer harm where key inputs fall outside the direct scope of the Duty.

Clarification in this area would support firms in meeting their Consumer Duty obligations, particularly in relation to consumer understanding and avoiding foreseeable harm.

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.

Response to Question 4:

We support the introduction of minimum public disclosures but take a cautious view and consider them possibly insufficient in their current form.

The Research Note (Research Note_ Understanding the UK ESG Ratings Market_ Findings from Our Surveys) highlights that only 58% of providers publish detailed methodologies and users frequently struggle to understand what ratings measure.

While we recognise the proportionality of the proposed approach, we consider that disclosures could be further strengthened to ensure they are consistently decision-useful.

In particular, we encourage the FCA to consider whether greater clarity is needed on:
- full (rather than summary) methodologies,
- whether ratings are data-driven, modelled, or opinion-based, and
- clear articulation of limitations, uncertainty, and intended use.

This would support downstream firms in appropriately interpreting and communicating ESG ratings in line with Consumer Duty expectations.

Question 8: Do you agree with our general expectations for transparency? If not, please specify what you disagree with and why.

Response to Question 8:

We broadly agree with the direction and intent of the proposed expectations. However, we consider that the effectiveness of these expectations may depend on the level of practical guidance provided, given the inherent complexity and diversity of ESG rating methodologies.

The Research Note (Research Note_ Understanding the UK ESG Ratings Market_ Findings from Our Surveys) confirms that users struggle with both lack and complexity of information.

With this in mind, we urge the FCA to consider:
- introducing standardised disclosure formats,
- requiring layered disclosures (technical and consumer-friendly), and
- ensuring information is usable by downstream firms to meet Consumer Duty obligations.

Question 13: Do you agree with our proposed approach to conflicts of interest? If not, please specify what you disagree with and why.

Response to Question 13:

We note that the CP states that ratings providers should (not exhaustive):

- Take appropriate steps to identify actual or potential conflicts of interest during the ESG rating process that present a material risk of damage to the integrity or independence of an ESG rating or a firm's operations.
- Maintain effective systems and controls to take all reasonable steps to prevent or manage conflicts of interest.
- Keep records of conflicts of interest and ensure their senior management is given a written report on these records at least once a year.
- Publish certain information related to a conflict of interest if a firm is not reasonably confident that the steps it has taken will prevent damage to a rating's integrity or independence.
- Have an effective and transparent conflicts of interest policy.

We broadly agree with the proposed approach to conflicts of interest. Given the downstream use of ESG ratings in consumer-facing products, we encourage the FCA to consider whether additional guidance may be helpful on how firms communicate the nature and limitations of ESG ratings where relevant to consumer decision-making.

In particular, in certain contexts, it may be helpful for firms to explain that ESG ratings:
- are not uniform across providers,
- may involve differing methodologies and assumptions, and
- are not subject to Consumer Duty standards.

This would support transparency and help firms deliver good consumer outcomes.

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.

Response to Question 18:

We understand the rationale for the proposed approach. However, we note that ESG ratings can have a meaningful indirect influence on consumer outcomes, and as such, there may be value in continued monitoring of whether the absence of direct redress mechanisms leads to unintended consumer impacts over time.

We therefore encourage the FCA to:
- continue to monitor this area, and
- support downstream firms in appropriately assessing and using ESG ratings in line with their Consumer Duty obligations.