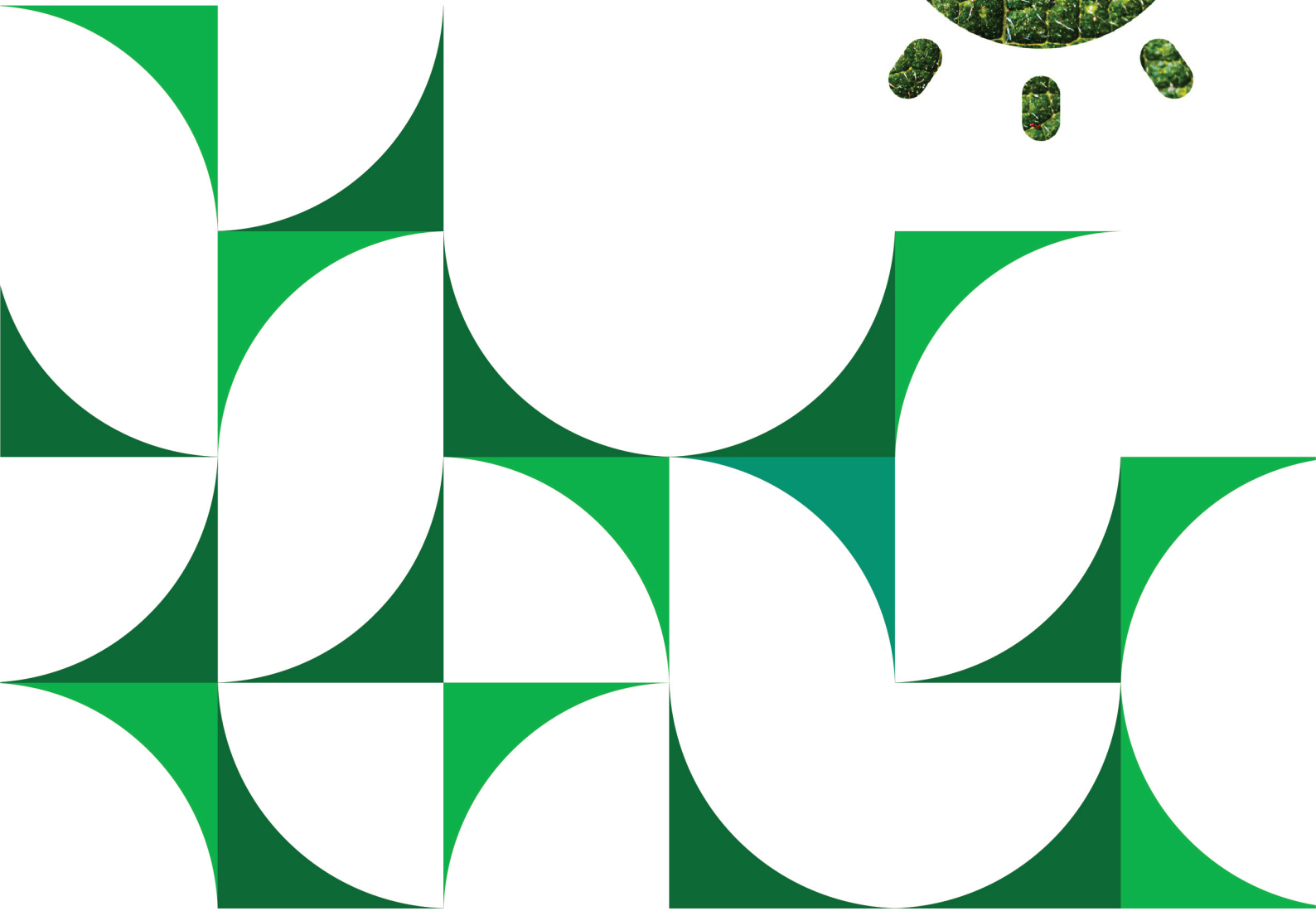


Discussion Paper on
**ESG Rating Services
and Data Providers**

March 2026





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1 Introduction

Environmental, Social and Governance (ESG) rating services and ESG data product providers play a growing role in sustainable finance by supporting investment decisions, risk management, stewardship, and sustainability disclosures. As their use increases, concerns about transparency, governance, and conflicts of interest have intensified, underscoring the need for a clear and balanced policy approach.

This discussion paper forms part of the Financial Sector Conduct Authority (FSCA) Sustainable Finance Programme of Work, under the Market Development pillar with linkages to disclosure, reporting and assurance. The paper summarises the FSCA's progress, reviews regulatory approaches in selected jurisdictions, and seeks stakeholder input on potential policy and regulatory options for South Africa. It is published for consultation and does not establish final policy positions.

Stakeholders are invited to submit comments using the questionnaire/comment template provided in **Annexure A**, in line with the submission instructions set out in the template.

2 Purpose

The purpose of this discussion paper is to:

- a. provide an overview of the development of ESG ratings services and data providers;
- b. provide feedback regarding the FSCA's survey on the review of ESG considerations by credit rating agencies¹ (CRAs);
- c. provide feedback on the FSCA's survey on ESG rating services and data providers²;
- d. outline ESG ratings services regulatory approaches in different jurisdictions; and
- e. invite input from industry stakeholders on the possible approaches for establishing some form of regulatory environment for ESG ratings services and ESG data providers, including through completion of the questionnaire attached as Annexure A to this discussion paper.

¹Credit rating agency" means a person who provides credit rating services, where credit rating services are defined as data and information analysis, evaluation, approval, issuing or review for credit ratings.

²The term ESG ratings services and data providers, as used in this paper, covers providers who offer ESG ratings and/or ESG data products. Where there is a need to single out ESG data product providers who do not provide ESG ratings, the term



3 Background

The FSCA is mandated to enhance and uphold the efficiency and integrity of the South African financial system while protecting financial customers. In alignment with the National Treasury's sustainability objectives³, the FSCA introduced a Statement on Sustainable Finance and a Programme of Work (the programme) in 2023. The programme aims to improve transparency and efficiency of the financial system by enabling accurate and complete reporting of sustainability risks to financial customers. It is structured around five pillars: Taxonomy; Disclosure, Reporting and Assurance; Market Development; Active Ownership; and Consumer Education.

Pillar Two on disclosure, reporting, and assurance, as outlined in the 2023 programme document, prescribed that the programme's 1–2 year plan would include research on the current use and presence of ESG ratings agencies and data providers, culminating in a position paper. During the 2023–24 financial year, surveys were issued to gather information on the application of ESG ratings services in South Africa. Furthermore, the FSCA published an updated programme of work document in 2024, indicating that from 2027 onwards, it will consider regulatory options for ESG ratings agencies under Pillar Two.

The 2016 Paris Agreement prescribed that emissions need to be reduced by 30% by 2030 and net zero be attained by 2050. Most notably, after the United Nations Global Climate Summit of the Parties (COP26) in 2021, organisations have had an impetus to develop robust sustainability and ESG strategies with transparent reporting. The global financial services sector thus experienced a transition from a voluntary to a mandatory stance in reporting corporate sustainability and social and climate change matters. For example, the Indian financial regulator updated their legislation in 2022/23 to mandate particular entities to incorporate mandatory ESG disclosures.

ESG ratings evaluate how well a company integrates environmental stewardship, social responsibility, and governance practices into its business model. These ratings aim to provide a holistic view of an organisation's ethical and sustainable practices by analysing everything from carbon footprint and water usage to labour practices and board diversity. ESG data product providers collect and analyse vast datasets, offering insights into the potential risks and opportunities that a company's ESG practices may present.

ESG investing, which generally refers to the process of incorporating ESG factors into asset allocation and risk decisions to generate sustainable and long-term financial returns, has become a leading form of finance due to its potential to deliver better economic returns, align with societal values, and contribute to sustainability and climate-related objectives. ESG products and services are increasingly used to assess the alignment of company targets and goals with actions to support an orderly transition to a low-carbon economy⁴ that prioritises renewable energy, energy efficiency, and other measures to reduce greenhouse gas emissions.

³https://www.treasury.gov.za/comm_media/press/2021/2021101501%20Financing%20a%20Sustainable%20Economy.pdf

⁴A low-carbon economy refers to an economic system that aims to minimise greenhouse gas emissions, particularly carbon dioxide, by promoting sustainable practices, clean energy, and efficient resource use. It focuses on reducing reliance on fossil fuels, increasing renewable energy adoption, improving energy efficiency, and implementing policies that support climate-friendly technologies and behaviours



Growing research demonstrates the influence of ESG ratings on financial markets. A study by Kiesel and Lucke (2019) analysed 3 719 credit rating reports from 2004 to 2015. Their findings highlighted that ESG considerations significantly impact stock returns and credit default swap spreads around rating announcements, emphasising the importance of all ESG criteria for equity and debt investors.

Over the past decade, ESG considerations have gained prominence in finance, with ratings and data tools helping investors, companies, and stakeholders assess the ethical and environmental impact of operations and investments. These services provide measurable insights across environmental, social and governance dimensions, supporting risk management, investment strategies, and disclosure requirements. As demand for sustainable finance grows, ESG ratings are expected to expand significantly, driving transparency, accountability, and positive corporate behaviour in a rapidly changing global market.

In ESG rating services and data product providers, methodologies and metrics are pivotal in assessing companies' sustainability and ethical impact. These ratings are derived using a variety of approaches that reflect the complexity of ESG factors. Providers often adopt unique frameworks to distil intricate ESG data into comprehensive ratings. They may collect data from public filings, corporate reports, and third-party sources, using quantitative and qualitative analyses to form their assessments.

Metrics in evaluating environmental responsibility often encompass a company's carbon footprint, energy efficiency, waste management practices, and natural resource utilisation. Social metrics might examine labour practices, diversity and inclusion measures, community engagement, and human rights policies. Governance metrics focus on board diversity, executive compensation, shareholder rights, and transparency. These metrics are then aggregated to provide an overall ESG rating.

The weight assigned to each component can vary significantly among providers, impacting the interpretation and comparison of ratings across different platforms. The methodologies often incorporate industry-specific adjustments, recognising that ESG challenges and opportunities can differ vastly between sectors. Continuous refinement of these methodologies is common, reflecting evolving standards, regulatory changes, and stakeholder expectations.

ESG rating systems and data products face numerous challenges and criticisms. The key shortcomings are:

1. the lack of transparency regarding the characteristics of ESG ratings, techniques, methodologies, and data sources and
2. the lack of clarity regarding how ESG rating providers operate. Different rating agencies often use varying methodologies to assess companies, resulting in inconsistent ratings for the same company. This lack of uniformity can confuse investors and stakeholders relying on these ratings to make informed decisions

Furthermore, ESG data collection can be unreliable as it heavily depends on companies' self-reporting. This self-reported data can be biased or incomplete, leading to inaccurate ratings. In addition, there is often insufficient transparency in how ESG ratings are calculated, making it difficult for outsiders to evaluate the credibility and reliability of these assessments.

Another challenge is the potential for ESG ratings to emphasise certain elements, such as environmental factors, at the expense



of others, like social and governance considerations. This imbalance can overshadow critical issues, resulting in a skewed understanding of a company's overall ESG performance.

As ESG investing grows in popularity, some criticise that these ratings inadvertently encourage companies to focus on ticking boxes or improving scores rather than fostering genuine, sustainable change. This could dilute the true purpose of ESG practices, reducing their overall impact on socio-environmental outcomes and long-term value creation.

Given these shortcomings, there is a risk that ESG ratings possibly do not adequately enable users, investors, and rated entities to make informed decisions about ESG-related risks, impacts and opportunities. These challenges highlight the need for effective regulation, transparency, and standardisation in the ESG rating services industry.

The FSCA is thus seeking views on the best way to ensure a proportionate but effective scope of regulation of ESG rating services and data products in South Africa. The discussion paper invites stakeholder views on initial policy proposals. As such, the discussion paper does not set out any definitive policy positions. Instead, insights gained from response to this discussion document will inform any future policy recommendations related to ESG ratings services and data providers.

4

IOSCO and OECD recommendations

In November 2021, the International Organisation of Securities Commissions (IOSCO) published its ESG Ratings and Data Products Providers Final Report (IOSCO Final Report)⁵. In this report, IOSCO set recommendations for ESG ratings and data product providers to improve their practices across what can be seen as four key areas of reform: transparency, governance, systems and controls, and the management of conflicts of interest.

The IOSCO Final Report defined:

- i. ESG ratings to refer to the broad spectrum of rating products that are marketed as providing an opinion regarding an entity, a financial instrument or a product, a company's ESG profile or characteristics or exposure to ESG, climatic or environmental risks or its impact on society and the environment that are issued using a defined ranking system of rating categories, whether these are explicitly labelled as "ESG ratings" or not.
- ii. ESG data products to refer to the broad spectrum of data products that are marketed as providing either a specific environmental, social, or governance focus or a holistic ESG focus on an entity, financial instrument, product, or company's ESG profile or characteristics or the exposure to ESG, climatic or environmental risks or its impact on society and the environment, whether or not they are explicitly labelled as "ESG data products".

⁵<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>



IOSCO established a board-level Sustainable Finance Task Force (STF) with the aim of:

- i. improving sustainability-related disclosures made by issuers and asset managers;
- ii. collaborating with other international organisations to avoid duplicative efforts and enhance coordination of relevant regulatory and supervisory approaches; and
- iii. preparing case studies and analysis of transparency, investor protection and other relevant issues within sustainable finance.

The IOSCO Final Report recommends how authorities could enable ESG ratings and data providers to deliver high-quality and independent products whilst addressing conflicts of interest.

The IOSCO Final Report states that, “where regulatory or supervisory authorities have authority over ESG ratings and data products providers, they could consider whether the reliability, comparability, and interpretability of ESG ratings and data products could be enhanced, by taking steps to improve the governance and transparency of the assessment process and the management of conflicts of interest of the providers”.

The recommendations focus on ways authorities could enable ESG ratings and data product providers to deliver high-quality and independent ESG ratings and data products whilst appropriately addressing conflicts of interest.

The IOSCO Final Report states that “mechanistic or over-reliance on ESG ratings or data products should be avoided”. This caution is essential given the over-reliance on CRAs on subprime mortgages and related instruments during the Global Financial Crisis of 2008. For this reason, IOSCO advises against regulators using ESG ratings in legal, regulatory, or supervisory frameworks as the basis for compliance.

Where regulators have authority over CRAs or exchanges that also issue ESG ratings and data products, these regulated entities should consider whether there exists the potential for conflicts of interest between a CRA’s or an exchange’s offerings and its ESG ratings or data product offerings, and if so, the steps they could consider mitigating and address those potential conflicts of interest.

Finally, regulators could consider whether there are opportunities to encourage industry participants to develop and follow voluntary common industry standards or codes of conduct. IOSCO could also consider its role in supporting the development of such voluntary standards or codes.

The IOSCO Final Report states that “amid growing interest in ESG evaluation and data to evaluate ESG-related performance, there would potentially be concerns about risks related to investor protection, market transparency and efficiency, and appropriate pricing”. It highlights that from the perspective of ESG evaluation and data users, there is room for improvement in ensuring the reliability of services, ensuring the transparency of evaluation methodologies, addressing conflicts of interest, and communicating with companies.



Table 1: IOSCO Final Report Recommendations

Recommendation 1: Regulators could consider focusing more on using ESG ratings and data products and ESG ratings and data product providers that may be subject to their jurisdiction.

Recommendation 2: ESG ratings and data products providers could consider adopting and implementing written procedures designed to help ensure the issuance of high-quality ESG ratings and data products based on publicly disclosed data sources where possible and other information sources where necessary, using transparent and defined methodologies.

Recommendation 3: ESG ratings and data products providers could consider adopting and implementing written policies and procedures designed to help ensure their decisions are independent, free from political or economic interference, and appropriately address 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 ESG data products providers and their officers and employees.

Recommendation 4: ESG ratings and data products providers could consider identifying, avoiding, or appropriately managing, mitigating, and disclosing potential conflicts of interest that may compromise the independence and objectivity of the ESG rating and ESG data products provider's operations.

Recommendation 5: ESG ratings and data products providers could consider making 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 concerning proprietary or confidential information, data and methodologies.

Recommendation 6: ESG ratings and data products providers could consider adopting and implementing 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.

Recommendation 7: Market participants should consider conducting due diligence or gathering and reviewing information on the ESG ratings and data products they use in their internal processes. This due diligence or information gathering and review could include understanding what is being rated or assessed by the product, how it is being rated or assessed, its limitations, and the purposes for which the product is being used.

Recommendation 8: ESG ratings and data products providers could consider improving information-gathering processes with entities covered by their products to lead to more efficient information procurement for both the providers and these entities.

Recommendation 9: Where feasible and appropriate, ESG ratings and data products providers could consider responding to and addressing issues flagged by entities covered by their ESG ratings and data products while maintaining the objectivity of these products.

Recommendation 10: Entities subject to assessment by ESG ratings and data product providers could consider streamlining their disclosure processes for sustainability-related information to the greatest extent possible, bearing in mind jurisdictions' applicable regulatory and other legal requirements.

Source: IOSCO Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report, November 2021



The Organisation for Economic Co-operation and Development (OECD)⁶ has also recommended that regulators pay more attention to ESG ratings and data. The OECD highlighted how policy and practice could be improved to help ESG ratings support the low-carbon transition and sustainability growth.

The OECD recommended that ESG rating providers improve transparency on sub-components of the environmental pillar of ESG ratings to allow market participants to focus on elements including, but not limited to, climate risks, climate opportunities, greenhouse gas emissions and decarbonisation targets. Greater transparency should be encouraged regarding the metrics that environmental pillar subcategories measure and incorporate, such as metrics that could be used to develop climate transition or environmental impact sub-scores to improve the informational value of the ecological pillar score. Clear boundaries should also be defined as to which areas of the “E” pillar are relevant to greening the financial system and which focus on other objectives, such as long-term economic value.

The FSCA, as a member of IOSCO, recognises the importance of ESG ratings and data product providers adhering to the recommendations set forth by IOSCO. In addition, the FSCA supports the OECD’s suggestion to enhance the transparency of the environmental aspect within ESG assessments.



⁶[THE-UN-PRINCIPLES-FOR-RESPONSIBLE-INVESTMENT.pdf](#)



5 Feedback on FSCA survey of ESG considerations for CRAs

In March 2023, licensed CRAs under the FSCA's regulatory purview were invited to participate in a voluntary survey from the FSCA to assess the state of ESG considerations by such entities. The survey aimed to gather information on the steps taken by industry participants to incorporate ESG factors into decision-making processes, the tools and resources used to assess ESG risks and opportunities, and the extent to which they are engaging with investors and investee companies on ESG considerations, methodologies, issued scores and risk assessments.

By conducting the survey, the FSCA aimed to gain insight into the industry's current state and identify areas for improvement to promote more sustainable and responsible investment practices.

To an extent, the survey results revealed that CRAs have not necessarily factored in ESG as part of their internal organisation-wide strategy, and there may be a need to incorporate frameworks and methodological approaches into an organisation's policy and procedure considerations. However, the licensed CRAs considered ESG factors in the credit rating processes and methodologies.

The CRAs emphasised distinguishing between credit ratings and ESG ratings, as these assessments serve different purposes for issuers, investors, and market participants. It was noted that CRAs may not be the organisations that provide ESG ratings or produce ESG data products. However, offering ESG ratings and data might fall under the range of services the CRA's broader organisational group or holding company provides.

Participating CRAs suggested that any possible future regulation or legislation applicable to ESG rating services and data providers should be proportionate and based upon a set of agreed principles instead of prescriptive rules. CRAs believe the IOSCO recommendations present a sensible, proportionate, and principle-based approach to the evolving ESG ratings and data products market. CRAs generally agree with IOSCO that the best practices should include a minimum level of transparency in ESG rating and product methodologies, the management of conflicts of interest, and appropriate governance arrangements by providers.

Regarding the role the FSCA could play in the context of ESG ratings and ESG data providers, some CRAs indicated that these products should be exposed to the same regulatory oversight as traditional credit rating services and credit rating agencies. Other CRAs highlighted that regulation should not mandate any specific methodology for ESG ratings; the concern is that standardising rating scales and definitions could harm the independence and international comparability of ESG ratings and reduce the diversity of opinion in this domain. Further, mandating a single methodology may increase the risk of reliance on ESG ratings and harm innovation.

CRAs generally agreed that public disclosure of methodologies used in the determination of ESG ratings was necessary so that users of ESG ratings could assess the merits of different ESG rating providers.

The CRAs emphasised that the initial supervisory framework should not be too burdensome or complicated. Credit rating services regulations have developed over decades as the market has matured; as such, regulators should focus on creating high-level, principle-based frameworks based on IOSCO standards. The FSCA notes recommendations provided by CRAs of adopting a similar approach as prescribed by IOSCO and principle-based regulation.



6

Survey on ESG ratings services and ESG data providers

Following the survey conducted on the ESG considerations of licensed CRAs, it was concluded that a supplemental study should be conducted targeting specifically ESG ratings and data providers operating in the South African sustainable finance space.

In August 2023, the FSCA sent a survey to 15 identified ESG ratings and data providers. A total of eight (8) ESG ratings and data providers responded electronically and three (3) via bilateral virtual engagement. Beyond the survey responses, the FSCA supplemented its research by engaging with respondents to elaborate further on responses and encourage a consultative dialogue between the FSCA and industry participants.

Survey respondents supported the harmonisation of standards aligned to IOSCO's recommendations, notably about transparency. There was a general concern about the risk of multiple fragmented regulations across different jurisdictions. Respondents were of the view that standardisation of data inputs would be beneficial in the sense that it allows for a streamlined and consistent approach to assessment inputs. However, facets like methodology can neither be standardised nor the assessment scores harmonised as this may inundate the market with similar scoring rubrics, thus eliminating the subject of comparability, which investors may desire for diversity.

The survey revealed that the survey participants offered their ESG rating services and ESG data products in South Africa and they worked with several banks, asset managers, corporates, exchanges, platforms, and insurance entities.

One of the aspects that the FSCA endeavoured to understand was whether the entities referred to complementary data sources to provide an ESG rating service. It was noted that entities use both proprietary and third-party sources. Some ESG ratings services publish ESG scores that are based on publicly available information and assess data points that focus on the intersection between a company's core business and industry issues that can create significant risks and opportunities for the company.

Regarding the question of whether the entities consider that ESG rating methodologies should be business-model specific, entities indicated that methods vary by solution. Materiality is an important factor considered by ESG scores, which means the methods will differentiate between sectors, sizes or circumstances when applying algorithms. Entities clearly stated that a "one-size-fits-all" approach is not viable.

Regarding ESG rating services and ESG data products fee models, entities indicated that fees vary by solution. They offer a subscription-based model⁷ and issuer-pay model. For the "subscriber pays" model, the investors and other users of the evaluation and data bear the costs. In contrast, for the "issuer-pay" model, the company issuing the bonds bears the costs.

In assessing the ESG ratings and data market, the FSCA considers that ESG ratings services and data depend on the quality of corporate disclosures available to all stakeholders. There are thus concerns on the reliability and comparability of ESG scores and ratings stemming from companies' lack of standardised disclosure. IOSCO has strongly encouraged international standard-setting bodies to leverage existing sustainability-related reporting principles, frameworks, and guidance, including the Task Force on Climate-related Financial Disclosures Framework (TCFD Framework) and the International Sustainability Standards Board (ISSB) standards. The National Treasury's Green Taxonomy issued in 2022 should also assist in standardising taxonomies and disclosures.



Regulatory developments in other jurisdictions

The impact of regulatory changes on ESG rating providers in other jurisdictions has been significant, reshaping their operations and methodologies. As regulatory bodies worldwide increasingly emphasise transparency and standardisation in ESG disclosures, ESG rating providers face pressure to adopt more stringent frameworks. Regulators are pushing for clarity and consistency, which compels providers to refine their criteria and enhance their data collection processes. This has increased the demand for precise, comparable, and reliable ESG data, necessitating advanced analytic tools and methodologies.

Following the publication of the IOSCO Final Report, several jurisdictions globally have begun to create and release legislative proposals and codes of conduct in response to addressing the IOSCO's recommendations. Examples include the European Union (EU), the United Kingdom (UK), India, Japan and Singapore.

European Union

In June 2023, the European Commission published the proposal for regulation on transparency and integrity of ESG Rating activities⁸ (the proposal). The European Commission conducted an impact assessment, concluding that there were two key problems. The first problem is that while investors and undertakings observe issues with the reliability, accuracy, and timeliness of ESG ratings, rated entities are unsure which categories/criteria are used to assess them. Secondly, ESG users cannot determine how accurately ESG ratings reflect their performance and how to improve it.

The proposal aimed to enhance the quality of ESG rating information by increasing transparency regarding the characteristics and methodologies of ESG ratings, and providing greater clarity on the operations of ESG rating providers. In addition, potential conflicts of interest at the providers' level are also addressed. The proposal suggests that the EU regulatory framework would be harmonised with the strategies applied to other financial market participants and pertinent legislation, such as the EU Benchmark Regulation, the Credit Rating Agencies Regulation, and the EU Green Bond Standard.

Several legislative and non-legislative policy options were assessed across two key dimensions: ESG rating providers (entities) and ESG ratings (products). In relation to the regulatory approach for ESG rating providers, three options were considered: an industry code of conduct (Option 1); registration accompanied by light-touch supervision (Option 2); and full authorisation supported by principle-based organisational requirements and risk-based supervision (Option 3). With respect to transparency requirements for ESG ratings and their methodologies, two options were evaluated: minimum public disclosure requirements (Option 1); and minimum public disclosures supplemented by more comprehensive disclosure obligations for clients of ESG rating providers and rated entities (Option 2).

The European Commission determined that soft law measures and codes of conduct would only partially achieve the objectives of the proposal, since there would be no incentive to produce a sufficiently rigorous code of conduct. Existing market pressures would determine the rigour and comprehensiveness of a code, and those pressures have proven insufficient to address the problems. Moreover, a code of conduct would be voluntary. Some providers might choose not to adopt it, or multiple industry codes might arise.

Based on the EU's assessment of effectiveness, efficiency, and coherence, the preferred approach is to combine Option 3 for ESG rating providers (authorisation, organisational requirements, and supervision) with Option 2 for ESG ratings (minimum transparency requirements for the general public and more detailed disclosures for clients of ESG rating providers and rated entities).

⁸The "subscription-based" fee model in the context of investment and financial advisory services is a pricing strategy where clients pay a regular (often monthly or annually) fee for access to a suite of services rather than paying per transaction or based on the assets under management (AUM). This model is akin to subscription services in other industries, like streaming services or software-as-a-service (SaaS) platforms and has been gaining popularity in the financial sector for several reasons. The challenge with this model is its lack of transparency as services and products, and therefore costs, are bundled.

⁸<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52023PC0314>



The European Commission noted that although these preferred options may result in higher initial costs, the long-term benefits are expected to outweigh these costs. This approach should assist investors and rated entities to better understand ESG ratings and make more informed decisions. It is also expected to lower information-gathering costs and reduce reliance on multiple service providers, thereby improving the overall cost of doing business. Furthermore, the preferred options would be non-discriminatory and would apply equally to both domestic and non-EU market participants.

The proposal excludes in-house ratings developed by asset managers or other institutions, such as benchmark administrators, as these ratings are produced solely for internal decision-making and investment purposes. They do not serve the same function as publicly available ratings and are not disclosed or distributed publicly, whether by subscription or other means. Consequently, this initiative is directed at legal entities that provide ESG ratings to the public or to subscribers. It will not apply to financial institutions or other market participants that develop ESG ratings exclusively for their own use. The proposal also grants the European Securities and Markets Authority (ESMA) the authority to license and supervise ESG rating providers.

In February 2024, the Council and European Parliament reached a provisional agreement on the proposal⁹. The agreement establishes the principle of separating business operations and activities. ESG rating providers are not required to create a separate legal entity in instances where the business provides other services or products for certain activities, provided there is a clear distinction between these activities and measures implemented to prevent potential conflicts of interest. However, this exemption does not apply to ESG rating providers engaged in consulting, auditing, or credit rating activities.

In November 2024, the Regulation on the transparency and integrity of ESG Rating activities¹⁰ was published on the Official Journal of the European Union. This regulation introduces a common regulatory approach to enhance the integrity, transparency, comparability where possible, responsibility, reliability, good governance and independence of ESG rating activities. The effective date for the ESG Rating Regulation is 2 July 2026. This is the date from which ESG Rating Providers will need to notify ESMA about their intention to continue operating in the EU. Following these notifications ESG Rating Providers should then submit an authorisation application.

To facilitate the smooth implementation of the regulation, there were empowerments for ESMA to deliver draft regulatory technical standards in the areas of authorisation, recognition, separation of activities and disclosures. ESMA launched a public consultation on these draft regulatory technical standards in May 2025¹¹ and final report in October 2025¹².

The standards set out the information required from applicants seeking authorisation or recognition as ESG rating providers, specifying which requirements apply equally to both EU and non-EU entities, as well as the additional information non-EU applicants must provide. They further establish measures to manage conflicts of interest for ESG rating providers involved in activities beyond issuing ratings, incorporating both general organisational requirements and more targeted technical controls for specific activities. In addition, the standards set detailed public disclosure obligations to ensure that ESG rating providers present information to the public, rated entities, issuers, and users in a consistent and comparable manner.

United Kingdom

In March 2023, His Majesty's Treasury (HM Treasury) published a consultation paper on a proposed regulatory regime for ESG rating providers under the Financial Services and Markets Act 2000 (FSMA).¹³ The consultation paper includes the proposed scope of the regulatory regime that will regulate a wide range of ESG ratings used in financial markets but not ESG data. An ESG rating would include any assessment of ESG factors, regardless of whether it is called a rating.

⁹<https://www.consilium.europa.eu/en/press/press-releases/2024/11/19/environmental-social-and-governance-esg-ratings-council-greenlights-new-regulation/#:~:text=ESG%20ratings%20have%20an%20increasingly,to%20prevent%20conflicts%20of%20interest>.

¹⁰https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ%3AL_202403005.



If regulation for ESG ratings were to be implemented, the HM Treasury would be responsible for introducing legislation to amend and expand the regulatory perimeter. This is expected through an amendment to the Regulated Activities Order, which would require firms to be brought into the perimeter and authorised by the Financial Conduct Authority (FCA) to meet specified threshold conditions.

The FCA would be expected to conduct a cost-benefit analysis and consult on new requirements for these providers, following its normal processes. The FCA has indicated that subject to consultation, they anticipate that their regulatory approach will take the main elements of IOSCO's recommendations as a starting point. In the meantime, a voluntary Code of Conduct for ESG rating and data providers was being developed by the International Capital Market Association (ICMA) and the International Regulatory Strategy Group (IRSG).

The FCA appointed the ICMA and the IRSG to convene an industry group to develop a globally consistent Voluntary Code of Conduct for ESG Data and Ratings Providers.¹⁴ The ICMA, in collaboration with the IRSG, developed the ESG Data and Ratings Working Group (DRWG). The DRWG meetings have been attended by observers from different jurisdictions, including the Monetary Authority of Singapore (MAS), the Japanese Financial Services Agency (JFSA) and the Ontario Securities Commission (OSC). The DRWG brought together stakeholders from the UK, the EU and the US representing ESG ratings and data products providers, rated entities, academics, and users of ESG data and ratings, such as asset managers, asset owners and banks, to develop the Code of Conduct for ESG Ratings and Data Product Providers published in December 2023.

The Code of Conduct is based on IOSCO's recommendations. It contains a threefold objective of (1) improving the availability and quality of information provided to investors at product and entity levels, (2) enhancing market integrity through increased transparency, good governance and sound systems and controls, and (3) improving competition through better comparability of products and providers.

The Code of Conduct for ESG Ratings and Data Product Providers sets out six principles:

- i. Principle of Good Governance
- ii. Principle on Securing Quality (Systems and Controls)
- iii. Principle on Conflicts of Interest
- iv. Principle of Transparency
- v. Principle on Confidentiality (Systems and Controls)
- vi. Principle on Engagement (Systems and Controls)

In a similar way to the European Union, the United Kingdom finalised its regulatory approach following public consultation, enabling the FCA to authorise and supervise ESG rating activities. In December 2025, HM Treasury issued an order amending the Financial Services and Markets Act 2000 to designate ESG ratings as a regulated activity. From 29 June 2028, any firm intending to provide certain types of ESG ratings in the UK will be required to obtain FCA authorisation.

In December 2025, the FCA published a consultation paper on the proposed approach to regulation¹⁵ for ESG ratings. The FCA proposes targeted and more detailed rules in areas where the potential for harm is greater, such as transparency, where users and rated entities require consistent and comparable information. In other areas, the FCA has adopted a more principles-based approach, including the management of conflicts of interest and stakeholder engagement.

India

In India, the Securities and Exchange Board of India (SEBI) has mandated the top 1 000 listed companies (by market capitalisation) to make ESG disclosures as per the Business Responsibility and Sustainability Reporting (BRSR) from the financial year 2021/22 voluntarily and mandatory from 2022/23. In May 2022, SEBI constituted the ESG Advisory Committee to make recommendations to streamline the regulatory framework for ESG Disclosures, ESG Ratings and ESG Investing.

¹⁴https://www.esma.europa.eu/sites/default/files/2025-05/ESMA84-2037069784-2276_Consultation_Paper_on_Technical_Standards_under_ESG_Rating_Regulation.pdf

¹⁵https://www.esma.europa.eu/sites/default/files/2025-10/ESMA84-2037069784-1184_Final_Report_on_Technical_Standards_under_ESG_Rating_Regulation.pdf

¹⁶https://assets.publishing.service.gov.uk/media/642556460a35e00120cb180/ESG_Ratings_Consultation.pdf

¹⁷<https://www.icmagroup.org/assets/DRWG-Code-of-Conduct-for-ESG-Ratings-and-Data-Products-Providers-v3.pdf>

¹⁸<https://www.fca.org.uk/publication/consultation/cp25-34.pdf>



To enhance transparency in ESG ratings and mitigate conflict of interest in ESG rating providers, SEBI issued a Consultation Paper seeking feedback on the need for a regulatory framework for ESG rating providers in the securities market in 2022. In July 2023, SEBI issued a Master Circular for ESG Rating Providers. It indicated that ESG rating providers are regulated under the provisions of SEBI's Credit Rating Agencies Regulations, 1999, through an amendment to include a chapter for ESG rating providers. That chapter inter-alia prescribes guidelines for registration, general obligations, manner of inspection and code of conduct applicable to ESG rating providers.

According to the amended regulations, only a company incorporated with the prime objective of ESG rating can seek registration as an ESG rating provider. Relying on its experience in regulating CRAs, SEBI wants to have an enforceable supervisory framework to govern ESG rating providers instead of a less stringent voluntary code of conduct.

Japan

The Japanese Financial Services Agency (JFSA) established the Technical Committee for ESG Evaluation and Data Providers in Japan in February 2022. It issued a Code of Conduct for ESG Evaluation and Data Providers.

The Code of Conduct is principles-based rather than prescribing what is expected of ESG evaluation and data providers in detail. It is similar to codes of conduct in other areas, whereby each institution will consider appropriate implementation by its services and market environments. For this reason, the Code of Conduct is not law or regulations that uniformly require actions of parties concerned but is designed to be a voluntary code on a "comply or explain" basis, where the JFSA calls for organisations to express their support for the Code of Conduct via a public announcement.

The organisations supporting the Code of Conduct will either comply with the principles and guidelines of the Code or explain the reasons why they do not comply with a particular principle or guideline. The support and endorsement of the Code of Conduct by an ESG evaluation and data provider will help investors and companies deepen their understanding of the provider's quality improvement and transparency initiatives.

The scope of the Code of Conduct is limited to ESG evaluation and data providers that participate in Japanese financial markets or provide services to the participants in the Japanese financial markets. There are no specific statutory regulations for the businesses of, or statutory definitions for, ESG evaluation and data providers. The Code of Conduct clarifies these basic concepts regarding the ESG Evaluation and Data Providers:



- i. (i) An entity participating in financial markets in Japan or providing services directly to such participants, which provides ESG evaluations and data services as part of its business and as a service that would contribute to market participants' investment decisions.
- ii. (ii) The ESG service is provided as part of its business and is repeatedly and continuously conducted as part of its operations.
- iii. (iii) ESG services are covered by the Code of Conduct regardless of the attributes of the entity which provides the services, such as a for-profit corporation, non-profit corporation, domestic company, or foreign company.
- iv. (iv) In principle, the provision of ESG data is also covered by the Code of Conduct if (i) to (ii) above are satisfied, and the service adds information on corporate data through calculations, estimates, etc.

Singapore

In December 2023, the Monetary Authority of Singapore ("MAS"), together with industry participants, introduced the industry Code of Conduct for ESG Rating and Data Product Providers ("the Code") to enhance credibility and transparency for ESG Rating and Data Product Providers.^[1] Similar to the approach taken in Japan, this Code draws on IOSCO's 2021 recommendations on good practices and seeks to establish baseline industry standards for transparency in methodologies and data sources, governance structures, and the management of potential conflicts of interest that may affect the reliability and independence of ESG-related products. The code further promotes the protection of non-public information and structured engagement with rated entities to ensure efficient and factual information gathering. The Code operates on a "comply or explain" basis, and providers that adopt it are encouraged to submit a self-attestation, supported by a checklist issued by the MAS, outlining their level of compliance.

Looking ahead, the MAS has proposed a phased approach to formally regulating ESG rating providers as capital market services licensees under the Securities and Futures Act 2001. Industry participants have expressed support for this direction and recommended that, prior to finalising the regulatory framework, the MAS consider applying equivalence or third-country recognition to providers operating from IOSCO aligned jurisdictions with more robust, stringent regulatory standards. Collectively, MAS aims to reduce greenwashing risks, strengthen governance, and improve trust in ESG ratings and data products.

^[1]<https://www.mas.gov.sg/-/media/mas/regulations-and-financial-stability/regulations-guidance-and-licensing/financial-advisers/consultation-paper/annex-c-code-of-conduct-for-esg-rating-and-data-product-providers.pdf>



8

Possible approaches to ESG ratings and data providers in South Africa

In reviewing the questionnaire on ESG Considerations by CRAs, respondents agreed with the areas identified by the FSCA as posing potential harm from providing ESG ratings and ratings-like products. These include a lack of transparency, poor governance and systems and controls, poor management of conflicts of interest, and issues related to engagement with the rated entity.

The FSCA believes that enhancing the transparency of ESG rating providers' techniques, governance, and processes could provide significant benefits. The above section illustrates the differing regulatory approaches adopted globally: the EU and UK have chosen a formal framework by appointing ESMA and FCA respectively, as the authorities responsible for authorising and supervising ESG rating providers, while Japan has opted for a softer approach through the implementation of a Code of Conduct.

In contrast, SEBI has incorporated the oversight of ESG ratings into its existing CRA regulatory framework. These approaches have both advantages and disadvantages, and each approach balances rigour, flexibility, costs, and market confidence differently. The EU's and UK's formal approach prioritises strong oversight and standardisation but increases costs and administrative requirements; Japan's code-based approach emphasises flexibility and innovation, but lacks strong enforcement mechanisms; and SEBI's integrated model is efficient and cost effective, but may not fully capture the unique aspects of ESG rating activities.

In the future, a strong ESG ratings market can support South Africa's transition into a green, sustainable, and more equitable economy. The ESG rating market is still in its early stages and is expected to grow gradually with the implementation of sustainability goals. As such, the FSCA will seek feedback on the best strategy to support markets' efficiency and integrity. This strategy can take different forms and include various types of regulatory approaches.

The FSCA is of the view the IOSCO and OECD recommendations serve as a good baseline to support transparent practices, and it would therefore be sensible to incorporate these recommendations into a regulatory framework or industry code of conduct (depending on what the preferred approach is). Doing so will also ensure that South Africa is aligned with international best practice.

If the preference is to follow a formal regulation approach in respect of ESG ratings market, a question that arises is whether this should be a standalone framework, or whether there is scope for incorporating this framework into the existing framework such as the Credit Ratings Services Act, which is the approach that was adopted in India.

In forging a path forward for ESG rating services in South Africa, it is imperative to recognise these services' essential role in shaping sustainable business practices and informing investment decisions. Establishing a well-structured regulatory framework becomes crucial as stakeholders' demand for transparency and accountability grows.

South Africa is poised to leverage its unique environmental and socio-economic context to develop tailored ESG guidelines that address global standards and local nuances. Engaging in public consultations with key stakeholders, including industry players, regulatory bodies, and civil society organisations, will ensure that the regulatory approach is inclusive and aligns with national priorities.

Furthermore, collaboration with international counterparts can facilitate knowledge exchange and enhance the quality of ESG data and rating methodologies. A clear and supportive regulatory environment can foster innovation, encouraging the development of advanced ESG data products and services.

In conclusion, if the FSCA commits to a transparent, inclusive, and robust regulatory framework, South Africa can position itself as a leader in sustainable finance in Africa, driving responsible investment and contributing to long-term socio-economic progress. While challenges remain, a concerted effort towards regulation can foster trust and reliability in ESG rating services.



9

Invitation for comment recommendations

To assist the FSCA in formulating an informed view on the appropriateness of a regulatory framework for ESG ratings and data providers, the FSCA has prepared a questionnaire attached as Annexure A to gather inputs from stakeholders.

The FSCA hereby invite comments from ESG ratings and data providers, ESG ratings users, credit rating agencies, and all interested persons on the questions contained in Annexure A.

Comments must be submitted in the comment template attached as Annexure A, to the FSCA via email at FSCA.RFDStandards@fsc.co.za by no later than **30 April 2026**.

For further information on this document, do not hesitate to contact the FSCA at the email provided above.





9

Annexure A: Comment template

DISCUSSION DOCUMENT: THE DEVELOPMENTS AROUND ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) RATING SERVICES AND DATA PRODUCT PROVIDERS

PRIVACY STATEMENT

Please note that information collected in this template will be used for the purposes outlined in the template. In so doing, the identity of the entities and persons commenting on behalf of an entity will be recognisable.

The FSCA publishes all comments received and responses on its website, including the names of persons who commented and the entities they represent. This ensures transparency and openness in the comment process. However, respondents that wish to remain anonymous and/or wish that the content of their comments remain anonymous, must indicate the same on the submission.

All collected information will be processed in accordance with the FSCA's Privacy Policy, found at www.fsca.co.za.

IMPORTANT INSTRUCTIONS

Please note the following instructions for completing the template:

- For referencing purposes, please use the numbering in Annexure A.
- Please complete section A – Details of respondent in full.
- For comments, please use Section B.

Please send the completed template, in Word format, to FSCA.RFDStandards@fsca.co.za

Please note that no PDF or scanned documents or late submissions will be accepted unless agreed to in writing by the Authority.



SECTION A - DETAILS OF THE RESPONDENT

Name of organisation/individual:	
If the respondent is an organisation, provide the name and designation of the contact person:	
Licence number if authorised by the FSCA	
Email address:	
Contact number:	

SECTION B – COMMENTS ON QUESTIONS

FSCA QUESTIONS	RESPONSES
1. APPROACH TO ESG RATINGS AND DATA PROVIDERS	
1.1 Which of the following approaches to ESG ratings and data providers do you support, and why: 1.1.1 Formal regulation (Similar to the EU) 1.1.2 Voluntary industry standards or code of conduct. For example, a code initiated by industry, a code facilitated by a regulator (e.g. the approach adopted by the Japanese Financial Services Agency refers), etc.	



FSCA QUESTIONS	RESPONSES
1.1.3 Incorporating ESG ratings and data providers into existing regulation (similar to Securities and Exchange Board of India (SEBI)) 1.1.4 None of the above 1.1.5 Other	
1.2 Please share what you view as the benefits and disadvantages of each of the above approaches.	
1.3 In general, what role do you believe regulators should play in the ESG ratings and data providers environment?	
1.4 Has your entity, or do you know of other entities that have, developed standards or codes of conduct referred to in 1.1.2? If so, please provide details.	
2. APPROPRIATENESS OF IOSCO RECOMMENDATIONS FOR INCLUSION IN SOUTH AFRICA’S APPROACH The questions below are based on the presumption that a formal regulation or a voluntary industry code of conduct approach is adopted.	
2.1 Should a formal regulation or voluntary industry code approach adopt/incorporate the IOSCO	



FSCA QUESTIONS	RESPONSES
recommendations number 2 to 6, 8, and 9 and OECD's recommendation of improving transparency?	
2.2 If not, please provide reasons or suggest alternative recommendations to achieve transparency.	
2.3 Would adopting or incorporating IOSCO's recommendations 2 to 6, 8, and 9 and OECD's recommendation related to improving transparency result in additional costs? If yes, how so?	
2.4 Would you consider the current ESG information provided by your entity to be transparent and reliable? If so, please explain why. (Question for ESG ratings and data products)	
3. FORMAL REGULATORY APPROACH The questions below are based on the presumption that a formal regulation approach is adopted.	
3.1 Should there be a standalone framework for regulating ESG Ratings and data providers, or can the existing credit ratings framework be augmented to	



FSCA QUESTIONS	RESPONSES
accommodate the regulation of ESG ratings and data providers (e.g. the approach adopted in India is a good example of the latter)?	
3.2 Please provide reasons for the view you communicated in 3.1.	
3.3 Are there any practical challenges arising from the overlap between potential regulation for ESG rating providers and ESG data providers and existing regulation?	
3.4 Outside of the below components/themes what should be covered in a legal framework regulating ESG ratings and data providers in South Africa? 3.4.1 Licensing 3.4.2 Governance 3.4.3 Disclosure and transparency 3.4.4 Availability and quality of information 3.4.5 Conflicts of interest 3.4.6 ESG rating methodologies	
4. ESG CONSIDERATIONS FOR CREDIT RATING AGENCIES (CRAs)	
4.1 Do you agree that CRAs should include ESG strategies in governance policies and operational frameworks?	



FSCA QUESTIONS	RESPONSES
4.2 If you disagree, please provide reasons.	
4.3 Outside of the current CRA disclosures, are there any more recommended disclosures concerning ESG methodologies that CRAs can make to improve transparency?	
4.4 In the instance where only publicly available information is used to determine ESG Rating services, are the relevant disclosures currently made?	
5. GENERAL QUESTIONS	
5.1 Many investors, including the general public, remain unclear about the functioning of ESG ratings. This lack of understanding hinders users, investors, and related entities from making informed decisions. In your view, what measures can be taken to provide clarity about ESG Ratings, enabling users, investors, and related entities to make informed decisions about ESG-related risks, impacts, and opportunities?	
5.2 How can the reliance on unregulated ESG ratings be managed to mitigate risks to investment performance and the credibility of the sustainable investment market?	



FSCA QUESTIONS	RESPONSES
5.3 How can enhancing the transparency of ESG rating providers through regulation or Codes of Conduct improve trust in ESG rating and the sustainable investment sector?	
6. ANY OTHER GENERAL COMMENTS, RECOMMENDATIONS, OR CONCERNS	



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Conduct Authority

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