

JOINT ASSOCIATIONS RESPONSE TO HM TREASURY CONSULTATION ON THE FUTURE REGULATORY REGIME FOR ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) RATINGS PROVIDERS

30 June 2023

Response to HM Treasury Consultation on the future regulatory regime for environmental, social, and governance (ESG) ratings providers

Summary

The International Swaps and Derivatives Association (ISDA) and the Association for Financial Markets in Europe (AFME) welcome the opportunity to respond to HM Treasury's consultation on the future regulatory regime for environmental, social, and governance (ESG) ratings providers.

ESG ratings perform an increasingly important role in capital markets and sustainable finance. We hope HM Treasury's review of the market will inform appropriate regulation of ESG ratings, applying the recommendations of the IOSCO report on ESG Ratings and Data Products Providers (the "IOSCO Report") as a common baseline.¹ The Associations support the use of the IOSCO recommendations as the basis for future regulation in the UK of ESG ratings.

We encourage HM Treasury and the UK financial services regulators to continue to coordinate with their international counterparts to avoid a fragmented approach. This is particularly important given the global nature of the market for ESG ratings.

In summary, this response makes the following key points:

- The Associations support the introduction of regulation for ESG ratings providers, in particular the need for greater transparency of methodologies, sufficient resources and expertise within providers, stronger governance, and addressing conflicts of interest. We welcome indication from the Financial Conduct Authority that their regulatory approach would take the main elements of IOSCO's recommendations as a starting point for rules.
- We have outlined three main areas where we consider that there are challenges and overlaps that may arise in connection with the proposal to include ESG ratings providers within the RAO: potential overlaps with existing regulated activities; application of exclusions and exemptions; and transitional provisions.
- It is important to ensure that the regulated activity, and the exclusions, are appropriately calibrated to ensure that market participants have clarity and certainty on the extent of the regulatory perimeter and avoid unintentionally capturing activities. We note, for example, that the IOSCO definition of ESG ratings refers to 'ratings 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

¹ [Environmental, Social and Governance \(ESG\) Ratings and Data Products Providers Final Report](#), IOSCO, November 2021

impact on society and the environment that are issued using a defined ranking system of rating categories’.

- As IOSCO and the FCA have recognised, it is important to enhance the transparency, reliability and comparability of both ESG ratings and ESG data products. We understand that the government has decided to prioritise regulation of ESG ratings providers – which should be aligned with the UK Code of Conduct insofar as possible - with ESG data providers able to adhere to the Code of Conduct. This will help foster high standards and transparency while allowing for enough of the necessary flexibility needed for such a diverse market. Nevertheless, it is critical that the appropriate steps are taken to reduce the risk of unintended greenwashing by both ESG ratings and data providers, and we consider that it is important for the government and the FCA to continue to assess the market for ESG data products and to keep the need for taking regulatory action under review.
- On cross-border access, we note the importance of maximising the international interoperability of the UK regulatory framework with other jurisdictions. We recommend that HMT consider the introduction of substitutive compliance/equivalence provisions based on third country providers complying with the IOSCO recommendations subject to a positive assessment provided by their local supervisory/regulatory competent authority.
- Finally, we make a number of recommendations with regard to exclusions in response to question 10.

Responses to consultation questions

1. Do you agree that regulation should be introduced for ESG ratings providers?

The Associations support the introduction of regulation for ESG ratings providers. ESG ratings have a critical role in the allocation of capital and provide financial market participants with benchmarks to enable investment decisions, particularly given the rise in interest regarding sustainability matters. It is therefore important for these assessments to be produced to a high level of quality and integrity.

The relevance of ESG ratings in financial markets has increased significantly over the last few years and this is expected to continue. The increase in focus on ESG factors amongst investors, the increase in commitments by issuers and the increase in the application of ESG regulatory and disclosure requirements all drive the importance of ESG ratings in UK financial markets. ESG ratings are therefore very relevant to the UK financial market and market participants. This is because they provide a means of assessing investments from a perspective which presents both risk management and upside opportunities.

ESG ratings are increasingly being used to structure ESG financial services and products. Our Members rely on ESG ratings for the construction of indices and derivatives in structured products. They are also being used to determine pay-outs of ESG-linked derivatives.

Derivatives enable more capital to be channelled towards sustainable investments; help market participants hedge risk related to environmental, social and governance (ESG) factors; facilitate transparency, price discovery and market efficiency; and contribute to long-term sustainable investments.

In January 2021, ISDA published a paper outlining the range of product structures and transaction types that comprise the universe of ESG-related derivatives, including Sustainability-Linked Derivatives (SLDs); ESG-related CDS indices; exchange-traded derivatives on listed ESG-related equity indices; emissions trading derivatives; renewable energy and renewable fuels derivatives; and catastrophe and weather derivatives.²

ESG ratings play an increasing role in some of these products, although use of these products is currently not widespread. Descriptions and examples of each of these transaction types are provided within the paper.

In the context of Sustainability-Linked Derivatives (SLDs), having an independent third party minimizes the risk of moral hazard and the potential for conflicts of interest to arise given the economic consequences of meeting or failing to meet sustainability Key Performance Indicators (KPIs). It may also minimize potential disputes. The involvement of a third party will be intrinsic where the KPI is linked to a counterparty's general ESG rating. This is because the counterparty will be deemed to have met the KPI if it is granted a specific rating by the ESG rating provider. In other cases, the third party will need to be specifically chosen and appointed by the counterparties. This third party may be (without limitation) an auditor, environmental consultant or expert in the particular subject matter of the KPI.

It is therefore important that the market has confidence in the quality and reliability of ESG ratings and that there is appropriate transparency, comparability and reliability of ESG ratings. Investors that use an ESG rating as an input for capital allocation should have reliable and transparent information about the basis for that rating. A lack of transparency and reliability could harm investor protection and an orderly functioning of the market.

In particular, our Members have the following concerns with regard to the ESG rating products that they currently use, and where regulation could bring positive impacts:

- A need for greater transparency of methodologies: this is critical to enable users to understand what ESG ratings are measuring. This should cover not just the high-level methodology but the detailed assessments that have taken place against each score, including the rationale.
- As identified in the IOSCO Report, there is significant variation in ESG ratings due to different weightings of different ESG factors, leading to a low correlation of ESG scores from different providers for the same company. While there may be valid reasons for different ratings due to differences in focus, methodology and sources of data, there should be transparency of rating purpose and meaning (i.e. is the rating measuring impact, risk or opportunities), methodologies, and data sources to facilitate comparability of ratings. Our Members generally observe a lack of alignment of definitions and approaches. This variability, combined with a lack of clarity on the methodologies used, makes ratings difficult to compare.
- A lack of coverage of ESG ratings, as well as the need to ensure that providers have sufficient resources and analysts have sufficient expertise: In some cases, a perceived lack

² [Overview of ESG-related Derivatives Products and Transactions, ISDA, January 2021](#)

of resources has led to use of over-simplified tools with little human analysis which is likely to be particularly necessary for complex industries. Resourcing should also be commensurate with the number of companies rated. ESG rating providers should ensure that the quality of the information provided to the market and investors is not compromised by the number of companies rated and by increasing number of requests coming from their clients and rated corporates. Transparency over sources of data should enable users to assess the degree of analysis in the rating.

- Issues with some ESG rating providers' governance, for example that companies may not be aware that they are rated by certain ESG rating providers while others are not updated when there are changes to their rating, can lead to asymmetry of information and inaccuracies in reporting. The escalation process to report inaccuracies with unsolicited ESG ratings can be slow and time consuming for rated corporates, and in some cases may imply obtaining a solicited (fee paying) ESG rating, which means that reports that are be available to investors might not be corrected or updated for some time.
- While regulatory requirements should be mindful of enhancing the transparency of methodologies, as well as the sources of data used (e.g. data collection and management and client-agency interactions), they should not stifle the innovation of methodologies used by rating providers.
- The regulatory framework should be based on the overarching principle of transparency to allow for multiple operating models and methodological approaches to co-exist.
- As identified in the IOSCO Report, there could be a risk of conflicts of interests arising which need to be appropriately addressed. For example, some issuers with unsolicited ratings face having to pay for a solicited rating if they wish to update or correct an unsolicited rating.

We welcome indication from the Financial Conduct Authority (FCA) that their regulatory approach would take the main elements of IOSCO's recommendations as a starting point for rules. We would support HM Treasury making reference to the IOSCO recommendations as the template for the UK rules to be developed by the FCA on ESG ratings to ensure global consistency and avoid fragmentation.

We encourage HM Treasury, the FCA and the Prudential Regulation Authority (PRA) to continue to coordinate with their international counterparts to avoid a fragmented approach. This is particularly important given the global nature of the market for ESG ratings.

We note HM Treasury's intention to consider whether ESG ratings of voluntary carbon credits should be accounted for within the scope of this regulation or through channels. The voluntary carbon market will play a key role in the UK government meeting its net zero targets – it is critical that integrity and robust standards are brought to these markets to avoid the risks of greenwashing. Ratings used within the voluntary carbon market would benefit from all of the advancements outlined above, including greater transparency over methodologies and improvement of governance etc.

We also welcome the work underway to improve sustainability disclosures, which should improve the availability and quality of ESG data. This should in turn enhance the reliability of ESG ratings.

2. (For ESG ratings providers) If your firm were subject to regulation in line with IOSCO's recommendations, and aimed at delivering the four key regulatory outcomes in Figure 1.A, how would this impact your business? Please provide information on the size of your business when answering this question.

N/A

3. Are there any practical challenges arising from overlap between potential regulation for ESG ratings providers and existing regulation?

We consider that there are potentially practical challenges arising from overlaps between potential and existing regulation. We have set out a summary below, but please note that some of these practical challenges and overlaps will only become evident once the regime applicable to ESG ratings providers is further developed (e.g., through FCA rules).

We consider that there are three main areas where challenges and overlaps may arise in connection with the proposal to include ESG ratings providers within the RAO:

- **Regulatory perimeter:**
 - **Potential overlaps with existing regulated activities:** there are potential overlaps with the regulated activities of provision of credit ratings and benchmark administration. It should be possible to address these through the drafting of the scope of the regulated activity of providing ESG ratings, as well as perimeter guidance, but it will be important to clarify any potential areas of overlap partly to ensure that there is no confusion over which parts of the FCA Handbook apply to ESG ratings providers (including investment firms and other entities that are already authorised) and partly to ensure that entities that wish to remain outside of the scope of regulation are able to adjust their activities accordingly.
 - There is also a clear potential overlap with the regulated activity of advising on investments, as HMT's proposed description of the activity of providing ESG ratings indicates that it would be triggered where a person provides an opinion in connection with an RAO specified investment. Again, it will be important to clarify how these two activities interact, so that ESG ratings providers have clarity over which permissions they need to obtain if they want to obtain authorisation, or how they need to adjust their activities to remain outside the scope of authorisation. As the scope of the regulated activity of "advising on investments" differs depending on whether a person is authorised or unauthorised, it may also be necessary to provide further guidance or clarity in this regard (e.g., in relation to when an authorised ESG ratings provider would or would not be providing a "personal recommendation", and so may be considered to be advising on investments).
 - Although provision of investment research does not trigger separate licensing requirements, there are extensive obligations that apply to providers of investment research under the FCA Handbook. As discussed below, we

consider that it is important that investment research is distinguished from ESG ratings and excluded from the activity.

- It will also be necessary to define clearly the territorial scope of this activity, and when a non-UK person whose ESG ratings are used in relation to an RAO specified investment would trigger a licensing requirement (and similarly, whether a UK person would trigger a licensing requirement solely by producing ESG ratings, or if they may not trigger a licensing requirement where their ratings are used only by non-UK persons). HMT's proposed description of providing an ESG rating "to be used by persons in the UK" does not give sufficient clarity on territorial scope, as (for example) a person could generate an ESG rating that ends up being used by persons in the UK without having any knowledge that this was or could be the case, and without making meaningful revenue from generation of the rating (which would be a key factor in the person deciding whether or not to incur the expense of obtaining authorisation in the UK).
- **Application of exclusions and exemptions:** in addition to defining the regulated activity of providing ESG ratings, HMT will also need to consider (i) whether existing general exclusions in the RAO will need to be enhanced or modified; and (ii) providing a comprehensive list of specific exclusions for this activity, given the far-reaching consequences of being included within the regulatory perimeter. This will be particularly challenging given that the market for ESG products is nascent, and continually developing, and it may not be possible to draft an exhaustive list of exclusions now, where we have no visibility of future products.
- **Transitional provisions:** bringing a new activity within the scope of regulation for the first time has the potential to give an initial advantage to entities that are already authorised, not just because of the lead time to obtain authorisation (or variation of permissions) but also because they already have the required personnel and controls in place. In contrast, an entity that already carries on this activity but is not yet authorised will need to seek legal advice, work out whether it wants to carry on additional activities if it has to be authorised anyway, find personnel with appropriate expertise and put in place all the systems and controls necessary for compliance with their obligations as an authorised firm. In order to help address this, it will be necessary to provide for a carefully calibrated transitional period and transitional provisions.

The majority of the practical challenges are likely to arise from interaction between obligations on authorised ESG ratings providers and existing obligations that already apply to authorised entities. For example, which obligations under the FCA Handbook will apply to authorised ESG ratings providers (we assume that an entity that only provides ESG ratings would not become dual regulated)? Would they be required to comply with the senior managers' regime, capital requirements, existing or new conduct of business requirements? As this will need to be the subject of a separate FCA consultation, we are not able to comment at this stage. That said, in order to mitigate the risk of stifling growth in this nascent market, we encourage the FCA to design future regulation to minimise the quantum of obligations that would apply to ESG ratings providers, especially where these obligations are not necessary for achieving the objectives of the IOSCO recommendations.

4. Are there any other practical challenges to introducing such regulation?

There are risks in creating a new regulated activity, particularly when it comes to the ESG market. Whilst there are clear and accepted interpretations of current regulated activities which are defined in the Regulated Activities Order (i.e., “managing investments” and “accepting deposits”) which are not subject to change, as the ESG product market is continually evolving, being able to define what a “ratings provider” is may also evolve.

As outlined in response to question 3, to make this work it is critical for HMT to provide a clear definition of scope, including a clear and more comprehensive list of exclusions. It may also be useful for the FCA to be given a mandate to develop perimeter guidance (in similar way as in “PERG”), offering the FCA the ability to interpret the scoping provisions, creating more flexibility to adapt as new ESG products are developed in this rapidly evolving market.

In addition, it is important to maximise the international interoperability of the UK regulatory framework with other jurisdictions, to ensure that UK-based ratings providers can continue to operate cross-border.

5. Do you agree with the proposed description of an ESG rating?

The definition of ESG rating providers is very broad – as currently drafted this definition could capture a very wide range of items, including metrics that are derived from ESG ratings (e.g. proprietary derived ratings or scores). The definition also appears to be broader than the definition proposed by IOSCO. We suggest that the final definition be as closely aligned to the IOSCO definition as possible, while making it workable in practice.

While we support a broad scope of ESG ratings providers being brought within the regulatory perimeter, it is important to ensure that the regulated activity, and the exclusions, are appropriately calibrated to ensure that market participants have clarity and certainty on the extent of the regulatory perimeter and avoid unintentionally capturing activities (see below answer to Q10). HMT should consider the scope in more detail and clarify which items it intends to capture under its definition, taking care to ensure that items are not included unintentionally. For example, the sharing of information on the ESG characteristics of a product or service (which may be required by regulation).

It would be helpful for HMT to clarify the overall scoping intention. We note, for example, that the IOSCO definition of ESG ratings refers to ‘ratings 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 impact on society and the environment that are issued using a defined ranking system of rating categories’, and the draft regulation published by the European Commission on 13 June notes that it targets specialised entities providing ESG ratings.

The market for ESG products is nascent and continually developing - it is important that ESG ratings providers are effectively defined to mitigate against a challenging market-place and stifled competition.

As discussed below, it should be clarified that controversies reports are included in the scope of the definition.

6. Do you agree that ESG data, where no assessment is present, should be excluded from regulation?

As IOSCO and the FCA have recognised, it is important to enhance the transparency, reliability and comparability of both ESG ratings and ESG data products. We understand that the government has decided to prioritise regulation of ESG ratings providers – which should be aligned with the UK Code of Conduct insofar as possible - with ESG data providers able to adhere to the Code of Conduct. This will help foster high standards and transparency while allowing for enough of the necessary flexibility needed for such a diverse market. We also recognise that efforts to enhance the availability and comparability of ESG corporate reporting should also address some challenges in the ESG data products market e.g. through the implementation of TCFD and forthcoming Sustainability Disclosure Standards based on the ISSB standards, and similar international and regional initiatives.

Nevertheless, it is critical that the appropriate steps are taken to reduce the risk of unintended greenwashing by both ESG ratings and data providers, and we consider that it is important for the government and the FCA to continue to assess the market for ESG data products and to keep the need for taking regulatory action under review.

7. Do you agree with the proposal to regulate the activity of providing ESG ratings to be used in relation to RAO specified investments?

Overall, see our response to question 4.

It is our understanding, and it would be helpful if HM Treasury could explicitly clarify, that the activity of “providing” ESG ratings relates to the production of such ratings and does not capture the distribution or placement of a third party produced ESG rating by a financial services intermediary (for example where embedded within a bond or other financial instrument). Defining the activity as “producing ESG ratings” would further clarify this.

In addition, in conformity with IOSCO’s Recommendations, that provision of ESG ratings should be captured under the regulatory framework only when they are “marketed” (see earlier comments above).

8. (For ESG ratings providers) Do you know when an ESG rating you provide will be used in relation to a specified investment?

N/A

9. Are there ESG ratings used in relation to anything other than an RAO specified investment which also should be included in regulation?

ESG ratings are also used in lending products such as sustainability-linked loans (SLL). The use for such purposes would give rise to similar objectives to use in relation to specified investments.

10. Do you agree that each of the eight scenarios listed above (in paragraphs 3.2, 3.3, and 3.5) should be excluded from regulation?

We agree that ESG assessments where ratings are created by an entity solely for use by that entity should be excluded from regulation, as long as they are not marketed externally to a third party as an ESG rating product. Excluding them should help ensure proportionality for firms like asset managers, who may create their own ratings for internal use only, such as to make investment decisions. We also agree with HMT that ESG ratings and frameworks created by one group company should be able to be used by other companies in the same group, without falling within scope of the regulated activity (including where the ESG assessment is used solely by group entities i.e. not marketed externally to third parties).

We also strongly agree that investment research products, such as equity research reports, should be excluded. This is already a highly regulated activity where adding an additional overlay of regulatory requirements would be unnecessary and may create duplicative requirements or, at worst, competing requirements.

Currently, external reviews, including second party opinions, verifications, and certifications of ESG-labelled bonds are excluded from IOSCO's recommendations and the EU's proposed regulation of ESG ratings providers. However, we would be open to considering some sort of regulatory requirements for second party opinions provided in the context of sustainability-linked bonds, loans and derivatives to the extent this could assuage greenwashing concerns related to their use.

In addition, we strongly believe that financial products which are screened for ESG characteristics (whether this is a fund or another product offering, such as eligible collateral) should be excluded from HMT's definition of ESG ratings providers. We also believe that ESG products which incorporate an element of an ESG rating which is made available to clients as part of a broader service and not marketed as an ESG rating product should not be included, where the entity does not make that assessment itself – this appears to be consistent with the intention of the European Commission in its proposal on regulating ESG ratings providers, published on 13 June.

It is worth noting that there are significant ESG rating providers that are not-for-profits and are used for capital allocation and investment activities. Some of these pose similar risks to those that HMT is seeking to address through regulation. We therefore believe that ESG ratings by not-for-profit entities should be brought into the regulatory perimeter also because these providers may still fail to comply with the IOSCO recommendations despite the absence of a profit motive. Only providers that are able to take reasonable steps to provide sufficient levels of quality and accuracy of their product should participate within the market. We propose that the regulation is subject to a threshold to exclude small NGOs.

Nevertheless, should HM Treasury conclude that a not-for-profit exemption is appropriate, we suggest that this should then be subject to ensuring that there is a mechanism to impose regulation on any entity that becomes a systemic consolidator / operator in the market.

Whilst proxy advisory services are regulated, ESG ratings, assessments and/or controversy screenings can also be a prominent feature in proxy reports. Whilst the legislation governing these services does require proxy advisors to publicly disclose their code of conduct and report against that code of conduct (or explain why they do not have one), we do not believe it is currently sufficiently clear that these ESG-specific features are in scope of the proxy advisors' regulation. It is not currently clear that the controversy scores or ESG ratings featured in or on the face of proxy reports are featured in these codes of conduct or are reported on, as other parts of the proxy advisory service and reports would be. Whilst we agree there should not be significant overlap in regulations, we believe proxy reports and proxy advisory services should not be exempt from any regulation of ESG ratings, as this could create a gap where ESG ratings and data products included in proxy reports remained unregulated and would not benefit from regulatory guidance on quality of data and transparency of methodology. If it is believed that the ESG rating or controversy report elements of proxy reports are already in scope of the Proxy Advisors Regulations, the market could benefit from further clarity on this interpretation and expectation from the FCA.

11. Are there any other exclusions which should be provided for?

The market for ESG products is constantly evolving and there are risks that innovation in the ESG product space is stifled where an appropriate exclusion under the RAO is not available for a future ESG product offering. Therefore, it is important to ensure that the description of the regulated activity is sufficiently clear (as noted in our answers above) unless HMT proposes to address areas of uncertainty through exclusions.

12. Do you agree with the proposal to regulate the direct provision of ratings to users in the UK, regardless of the location of the provider?

See answer to Q.16 below.

13. (For UK users of ESG ratings) Are you concerned that this proposal would hamper the choice of ESG ratings available to you?

No. Even though most ESG ratings are provided by companies headquartered outside Europe, given the importance of the UK/EU for sustainable investing globally we believe it highly unlikely that these companies will choose to exit the market as a consequence of regulation. Additional transparency will foster innovation and encourage competition, allowing smaller and more boutique providers to better compete with incumbents.

14. Should any instances of direct provision of ESG ratings to users in the UK be excluded from regulation (for example, the provision of ESG ratings to UK branches of overseas firms, or to retail users who are temporarily physically located in the UK)?

N/A

15. Are there any scenarios of indirect provision of ESG ratings to UK users which should also be regulated?

N/A

16. How would the territorial scope proposed in this chapter interact with initiatives related to ESG ratings in other jurisdictions, such as proposals for regulation or codes of conduct?

A number of other jurisdictions are taking steps to regulate the conduct of ESG ratings providers, for example in Japan, the EU, Singapore and others. It is therefore important to maximise the international interoperability of the UK regulatory framework with other jurisdictions, including by basing regulatory requirements on the IOSCO recommendations.

HMT should consider the introduction of substitutive compliance/equivalence provisions based on third country providers complying with the IOSCO recommendations subject to a positive assessment provided by their local supervisory/regulatory competent authority. This is important to minimise duplication and potential conflicting requirements.

17. Should smaller ESG ratings providers be subject to fewer or less burdensome requirements?

We think that any entity should fall into the scope, regardless the size of the company i.e. smaller ESG rating providers, as soon as they market their provision of services. To that end, IOSCO is setting that criterion of “marketed” ESG Data or Rating delivery by Providers as a key parameter.

However, recognising that the overarching aim of bringing ESG ratings and data product providers into the regulatory perimeter is to ensure their transparency, comparability and reliability - and that the size of a provider is less consequential than the potential impact of the provider’s ratings on the market - we believe that only providers that are able to take reasonable steps to provide sufficient levels of quality and accuracy of their product should participate within the market.

18. (For ESG ratings providers) What impact would an authorisation requirement have on your business? Please provide information on the size of your business when answering this question.

N/A

19. Do you have any views on an opt-in mechanism for smaller providers?

N/A

20. What criteria should be used when evaluating the size of ESG ratings providers?

N/A

21. What level could the criteria for small ratings providers be set at (i.e., how could ‘small ratings provider’ be defined)?

On the basis of number of employees globally, as opposed to revenue. Some of the small rating providers can seem to be small because of low revenues, but their data can actually be available within much larger industrywide technology platforms that make their ratings available in exchange for a very small fee in the first years of the contract.

22. Is there anything else you think HM Treasury should consider in potential legislation to regulate ESG rating providers?

We strongly consider that the collection and assessment of ESG controversies should be considered by HM Treasury. Controversy reports and alerts are typically produced by ESG data and ratings providers for two purposes i) as a standalone controversy report or alert which may be used by investors as an additional screening mechanism, or by proxy advisors when producing recommendation reports; and ii) as a data point considered part of an ESG rating or scoring process.

To restore trust and promote confidence in the ESG ratings space, both purposes should fall within the regulatory perimeter.

Contacts

AFME

Oliver Moullin
Managing Director
Sustainable Finance, General Counsel and Company Secretary
Oliver.Moullin@afme.eu

Giorgio Botta
Manager
Sustainable Finance
Giorgio.Botta@afme.eu

ISDA

Stevi Iosif
Senior Advisor to Public Policy
SIosif@isda.org

Toby Coaker
Assistant Director
UK Public Policy
TCoaker@isda.org

Kai Moritz
Assistant Director
European Public Policy
KMoritz@isda.org

About AFME

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society. AFME is the European member of the Global Financial Markets Association (GFMA), a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia. AFME is listed on the EU Register of Interest Representatives, registration number 65110063986-76. Information about AFME and its activities is available on the Association's website: www.afme.eu.

About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 79 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org.

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