

Deloitte Banking Alert

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The UK government set to unveil regulatory regime for the ESG ratings industry

The UK government is set to press ahead with plans to regulate agencies that evaluate the environmental, social and governance performance of companies, the latest in a global crackdown on the sustainable ratings industry. Ministers intend to unveil formal proposals as early as January next year following a three-month consultation that closed in June.

Background

The push follows concerns in the UK and elsewhere about a largely unregulated sector that wields broad influence over trillions of pounds worth of sustainable investments. At present there is little oversight on how organisations create ESG criteria and rate other companies against them.

The ratings influence which stocks and bonds make it into investment funds that are marketed as sustainable. The Treasury is examining whether regulating ESG agencies will require fresh legislation or could be achieved through measures implemented under existing laws, people familiar with the matter said.

Although a proposal to create a new watchdog has not been ruled out, expanding the remit of the Financial Conduct Authority is considered the likelier option.

Next steps

The FCA, the UK's markets regulator, has been encouraging the industry to adopt a voluntary code of conduct currently under development, in part because of its uncertainty about its formal powers to oversee the sector.

A working group created at the instigation of the FCA is due to publish the voluntary code for ESG data and rating providers in December. A draft version of the code published in July said providers should disclose measures they take to avoid conflicts of interest and publish more information about their methodologies, among other reforms.

Conclusions

The Treasury said it would publish a government response to its consultation on a potential regulatory regime for ESG ratings providers “in due course”. The FCA confirmed that it continues to work with the government on the consultation for a regulatory regime for ESG ratings providers.

Britain’s move to regulate the sector comes after the European Commission also proposed new rules for ESG rating providers in June. The Commission proposed measures to separate ratings groups’ provision of data services from their consultancy arms, to ask them to disclose more methodological details and to formally register with authorities.

For further questions regarding the aspects mentioned in this alert, please don’t hesitate to contact us:



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