



Financial Conduct Authority  
12 Endeavour Square,  
London,  
E20 1JN.

31 March 2026

Dear Consultation Team,

Thank you for the opportunity to respond to the proposals in CP25/34, which are broadly most welcome.

The EIRIS Foundation works in the public interest across the investment chain - from asset owners and fund managers to data providers and regulators - to build a more equitable and sustainable financial system. We believe that investment decisions should reflect the values and interests of all stakeholders. We focus on mainstream finance because change at scale requires shifting both investment practices and capital flows.

We bring the following experience to this topic:

- (a) Providing research for the Corporate Human Rights Benchmark to the World Benchmarking Alliance (based in the Netherlands), which is a free public benchmark that we helped to create, and which seeks to drive a race to the top in terms of corporate uptake of the UN Guiding Principles on Business & Human Rights and other relevant international instruments.
- (b) Researching (in the US through a 501(c)(3)) companies involved in certain conflict zones (starting with Sudan) and providing that to investors (largely US but a few UK and elsewhere) who are interested in the related concepts of Conflict Risk and Peace Finance.
- (c) Producing an assessment of Common Investment Funds available to charities in the UK pursuant to our charitable objective of assisting other charities with their responsible investment approaches.
- (d) For a little over 30 years we owned the Ethical Investment Research Service (EIRIS), an ESG ratings agency we created in 1983 when such things did not exist, and which we merged with Vigeo to create a larger one in 2015 before subsequently disposing of our shareholding in a transaction that led to the creation of Moody's ESG, although Moody's has subsequently closed much of this operation.

Additional relevant experience is that our CEO participated in two BSI standard or specification exercises: a previous one on defining responsible and sustainable investment management and a current one seeking to create a standard for human rights due diligence.

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*EIRIS Foundation is a registered charity, no.1020068 and a company registered in England and Wales no. 02460330.*

Our comments on a number of the questions raised are as follows:

**Question 2: Do you agree with our approach to applying the high-level standards to rating providers? If not, please specify what you disagree with and why.**

There is much to welcome here.

It is important, however, that the requirements for good management and financial prudence be interpreted in relation to the purpose of the ESG Ratings, rather than as might be more relevant to those for whom they provide ESG Ratings. The skills and financial resources needed to run a bank, or an investment manager are obviously very different from what is required to ensure that an ESG Ratings agency fulfils its purpose. And that purpose might be defined as identifying all relevant and emerging ESG risks and opportunities and developing methods that accurately identify which corporate approaches to leadership, due diligence, management, disclosure or other initiatives are associated with the successful management and minimisation of ESG risks and development of ESG opportunities over the long term, and to play a role in helping others develop financial products, services or practices which embed such considerations in the investment chain.

It is early days for regulating such activities but developing a tailored and focused approach to what good looks like when it comes to the management of an ESG Ratings agency for that purpose will be a key success factor in delivering the ambitious agenda you set out as being what you want to achieve.

In this context, one role (or set of roles) that deserves more attention within an ESG Ratings agency is the senior role or roles responsible for review and improvement of the Ratings methodology over time. Those responsible need to have sufficient experience in the business of ESG ratings (and experience should be disclosed to reassure users). The function also needs to be properly resourced and to have access to inputs from clients, and relevant topic experts (internal and external) to fulfil their role. They also need access to any complaints and other direct feedback. They may need a degree of protection against cost-cutting or other interference as a key element in maintaining the independence of the agency and its focus on quality. The governance and resourcing around these roles should be clearly described, and good practice developed and shared over time.

**Question 3: Do you think existing regulatory regimes sufficiently address the risk of harm? If not, which areas do you think need to be addressed and why?**

You rightly point out that the failure of an ESG Ratings agency isn't the same sort of risk as the failure of a bank. On the other hand, ESG Ratings can be baked into products that are long-term in nature, and where the ultimate consumer or pension scheme beneficiary cannot readily reconfigure their arrangements if the data source they are based upon disappears. However, in recent times, the withdrawal of services has been caused more by decisions "higher up" in financial data providers than by the financial failure of individual firms. The decision of Moody's to end the Moodys ESG offering and replace it with data from another provider removed a particular "dual materiality" focussed offering from the marketplace, and the more recent decisions of a number of providers to withdraw services related to conflict because of criticism in the USA that their analysis of the Israel Palestine conflict could be seen as antisemitic are practical examples. There has also

been coverage of services withdrawing elements of their DEI research following hostility from the present US government.

Consideration might be given to some “responsible exit” principles if providers choose to withdraw from the provision of certain data, to protect those clients who have depended upon a particular service. Facilitating clients in finding replacement services (perhaps providing discounts to enable them to do so) or making the discarded methodologies and past data “open source” to allow others to take up elements that were popular in the marketplace might be examples of possible approaches.

It makes sense not to double-regulate bodies already covered elsewhere (“Regulated Products and Services”), but it is important to consider how projects like the CCLA Modern Slavery Benchmark can be included within this principle. This kind of initiative can be a valuable contribution to the development of ESG Ratings more generally and should not be discouraged as requiring a separate authorisation. It would be necessary to be clear that asset managers or investment firms “producing ESG Ratings as part of their engagement activities” would also be spared double regulation.

**Question 4: Do you agree with the proposed minimum public disclosures listed in Table 2? If not, please specify what you disagree with and why.**

This is a good list and will materially improve transparency and also competition in the marketplace. It’s not completely clear whether “public means public” in this context, but we would strongly advocate that it should be and that these disclosures be readily available on the organisation’s website. You should resist any calls to move specific lines into the “direct users only” list, for example.

Ratings are not just about companies and investors. They are frequently attempting to assess the impact on workers, communities, customers and other stakeholders or on the environment where local or expert knowledge may also be relevant. It may not be feasible to insist that all these groups are involved as carefully as it is proposed to communicate with the companies that are being rated even though failure to regard the views, interests and knowledge of these other stakeholders is potentially just as detrimental to the quality of the ratings. But it can at least be made easier for such groups to be aware of what is being done “about them” and to raise their voice where they can.

**Question 5: Are there any key minimum public disclosures missing from the proposed list in Table 2? If so, please specify which disclosures and why they should be included.**

There are a number of other dimensions besides scope and calculation methods which determine the outcomes of a rating in practice and their suitability for different investor use-cases.

- The extent to which the rating assesses the impacts or opportunities of the products and services a company provides (the “what”) or alternatively the impacts (for good or ill) of the way in which the product or service is created on the environment, and on direct and indirect employees and other stakeholders (the “how”), or some (disclosed) combination of the two;

- Whether the rating includes an assessment of allegations or incidents on each topic and the approach taken to resolve them, or whether this is not considered at all, or can only be found in a separate product. If they are not included, then users need to be aware that a rating will tend to increase when there is a disaster (as the company takes steps in response) and might want to combine the assessment with an analysis of the incident which led to these developments, or the frequency of such incidents.
- The extent to which assessment of the materiality of an impact or potential impact (including of allegations or incidents) is made from the standpoint of the impacts upon the company (discounting impacts where the model used identifies no immediate financial consequence), or the standpoint of the impacts upon stakeholders or the environment (leaving the user to judge the financial materiality where they wish to do so), or some (disclosed) combination of the two.

It could also be relevant to ask whether there are language limitations of the sources consulted (for example, English-only), which can produce significantly different results in some jurisdictions.

What a higher or lower rating means is a good question, but it would also be helpful to users to indicate if the creators of the methodology intend particular scores to have meaning beyond being simply relatively better or worse. For example, if there is a particular threshold intended to mean that the major source of risk has been addressed at least to a “good practice” level, or, on the downside, whether a particular threshold suggests serious unmanaged risks persist. So, adding “the significance of particular thresholds” to the question would be helpful.

**Question 6: Do you agree with the proposed disclosures for direct users and rated entities and the approach to onward sharing? If not, please specify what you disagree with and why.**

It is very important to remove barriers for onward transmission of the methodology to indirect users. For example, we are aware of a number of charities that are given “ESG scores” for their portfolios, with very limited understanding of what that means in relation to whatever their responsible investment concerns may be.

**Question 10: Do you agree with the proposed governance approach for rating providers? If not, please specify what you disagree with and why.**

Please see our earlier comments on the importance of governance and senior leadership for ESG Ratings development over time in response to question 2 (last para)

**Question 12: Do you agree with the proposed requirement to give rated entities and users notice of material changes to a methodology? Should any other stakeholders also be given this notice?**

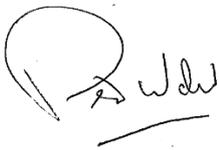
Yes, the full range of stakeholders should be made aware of changes (including through the minimum public disclosures regime), but this should not only be after the fact. Agencies should disclose their plans for reviewing their methodology ahead of time (including seeking inputs of draft proposals) and seek input from the full range of stakeholders, potentially under the guidance of a suitable advisory committee. Our experience of such exercises in the creation of the Corporate Human Rights Benchmark, for example, has been that you can draw upon a very diverse and high-quality level of input that will strengthen methodology development significantly.

**Question 15: Do you agree with the proposed approach for stakeholder engagement? If not, please specify what you disagree with and why, and if you have identified any gaps.**

It is not so much to disagree as to emphasise the importance of consultation to improve the quality of the methodologies used by ESG Ratings agencies. This is being given less focus here than dealing with and resolving complaints. Dealing with complaints is important, and indeed, if you deliberately seek to learn from the pattern of complaints, then this can lead to important quality improvements. But it is as important to reach out to the full range of affected stakeholders and experts when you are planning new developments or decide the time is right to review your approach. See our experience of the value of stakeholder input in the development of the Corporate Human Rights Benchmark in response to question 12.

Again, we are grateful for the opportunity to participate in this important consultation and would be happy to discuss further any of the points raised or to assist in any other way.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Peter Webster', with a horizontal line underneath.

Peter Webster  
CEO  
EIRIS Foundation