



CIRCULAR

IFSCA-PLNP/12/2024-Capital Markets

July 31, 2024

To,
All Credit Rating Agencies in the International Financial Services Centre (IFSC)

Madam/Sir,

Sub: Enabling Credit Rating Agencies to undertake additional activities relating to ESG Ratings and Data Products Providers

Globally, the role of Environmental, Social and Governance Ratings and Data Products Providers (ERDPPs) has seen a significant rise due to factors such as net zero targets in several jurisdictions and companies having their own targets to reduce carbon footprints, demand from investors for businesses to have a positive social impact and pervasiveness of transparency and governance. Further, various regulatory frameworks internationally require disclosures of ESG reports including sustainability reports by entities, thereby increasing the role of ERDPPs.

2. IOSCO published a report in November 2021¹ on *“Environmental, Social and Governance (ESG) Ratings and Data Products Providers”* providing 10 recommendations for securities market regulators to consider while regulating ERDPPs with a focus on promoting transparency, good governance, management of conflicts of interest, and robust internal systems and controls.

3. Subsequently, securities market regulators in few global jurisdictions have issued frameworks, including codes of conduct, for regulating ERDPPs. An industry-led working group, with the support of the International Capital Market Association and the International Regulatory Strategy Group, created a voluntary Code of Conduct in December 2023² for ESG Ratings and Data Products Providers.

4. With an objective to develop an ecosystem for various activities relating to ESG including sustainability in the IFSC, it has been decided that a framework may be specified to enable credit rating agencies (“CRAs”) registered with the International Financial Services Centres Authority (“Authority”) to also undertake services relating to ERDPPs in accordance with the requirements laid down in this circular.

¹<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>

²www.icmagroup.org/assets/DRWG-Code-of-Conduct-for-ESG-Ratings-and-Data-Products-Providers-v3.pdf

Permitted Services

5. CRAs shall be permitted to provide services relating to ESG Ratings and ESG data products, as mentioned below:

- a) *ESG Ratings*: ESG ratings shall include the broad spectrum of rating products relating to sustainable finance and include ESG scorings, ESG rankings, Sector ESG Ratings, and Thematic scores;
- b) *ESG data products*: ESG data products shall include products and services relating to ESG-related information.

Explanation: The services relating to independent external review for ESG labelled bonds listed on the recognised stock exchanges in the IFSC are included as permitted services by ERDPPs.

6. CRAs may provide ERDPP services for any financial product or security or to an issuer (including a sovereign or a multilateral institution) or a financial institution in the IFSC or any Foreign Jurisdiction:

Explanation: For the purpose of this circular, “*Foreign Jurisdiction*” shall have the same meaning as assigned to it under clause (p) of sub-regulation (1) of regulation (2) of the IFSCA (Capital Market Intermediaries) Regulations, 2021.

Code of Conduct

7. CRAs shall adhere to the “Code of Conduct”, on a “comply” or “explain” basis for providing services relating to ERDPPs mentioned in this circular:

(a) Principle on Good Governance

ERDPPs shall ensure appropriate governance arrangements are in place that enable them to promote and uphold the principles and overall objectives of the Code of Conduct.

(b) Principle on Securing Quality (Systems and Controls)

ERDPPs shall adopt and implement written policies and procedures designed to help ensure the issuance of high quality ESG ratings and data products.

(c) Principles on managing Conflicts of Interest

- (i) ERDPPs shall adopt and implement written policies and procedures designed to help ensure that their decisions are independent, free from political or economic interference, and appropriately address actual or potential conflicts of interest that may arise from, among other things, ERDPPs’ organisational structure, business or financial activities, or the financial interests of the ERDPPs, their officers and employees.

- (ii) ERDPPs shall also identify, avoid or appropriately manage, mitigate and disclose actual or potential conflicts of interest that may compromise the independence and integrity of the ERDPPs' operations.

(d) Principle on Transparency

ERDPPs shall make 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, while maintaining a balance with respect to proprietary or confidential information, data and methodologies.

(e) Principle on Confidentiality (Systems and Controls)

ERDPPs shall adopt and implement 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.

(f) Principles on Engagement (Systems and Controls)

- (i) ERDPPs shall regularly consider whether their information gathering processes with entities covered by their products lead to efficient information procurement for both the providers and these entities. Where potential improvements to information gathering processes are identified, ERDPPs shall consider what measures can be taken to implement them.
- (ii) Where feasible and appropriate, ERDPPs shall respond to and address issues flagged by entities covered by their ESG ratings and data products and by users while maintaining the independence and integrity of these products.

ESG Ratings Process

- 8. CRAs providing ESG Ratings shall have guidelines / criteria on the rating process and the same shall be disclosed on their websites.

Annual Audit

- 9. CRAs shall have an annual audit conducted by a member of the Institute of Chartered Accountants of India or a member of the Institute of Company Secretaries of India or any person authorised to conduct audit in a Foreign Jurisdiction in accordance with regulation 22 of the IFSCA (Capital Market Intermediaries) Regulations, 2021. The audit shall also cover all aspects relating to ERDPPs and the compliance with the requirements mentioned in this circular.

Segregation

- 10. CRAs shall segregate the credit rating activities from the services relating to ERDPPs to ensure that there is no conflict of interest between these activities.

Continuous Disclosures

11. CRAs shall disclose the compliance of the “Code of Conduct” referred at Clause 8 of this circular on a “comply” or “explain” basis on their websites.
12. CRAs shall disclose all ESG Ratings provided by them on their websites.

Power to call for information

13. The Authority may call for any information, documents or records from the CRAs, including relating to their activities as ERDPPs and CRAs shall provide such information, documents or records as and when sought by the Authority.

Maintenance of books of account, records and other documents

14. CRAs shall maintain and preserve the books of account, records and other documents in accordance with regulation 14 of the IFSCA (Capital Market Intermediaries) Regulations, 2021 besides maintaining all records relating to their activities as ERDPPs in the same manner.
15. The circular shall come into force with immediate effect.
16. This circular is issued in exercise of powers conferred by Section 12 and 13 of the International Financial Services Centres Authority Act, 2019 and regulation 72 of the IFSCA (Capital Market Intermediaries) Regulations, 2021.
17. A copy of this circular is available on the website of the International Financial Services Centres Authority at www.ifsc.gov.in .

Yours faithfully,

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