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Submitted via the online response form at <https://go.gov.sg/MAS-ESG-Code>.

## **ICI Global Response to MAS Consultation Paper on Proposed Code of Conduct for Environmental, Social and Governance (“ESG”) Rating and Data Product Providers**

### INTRODUCTION

ICI Global appreciates the opportunity to provide feedback on the Monetary Authority of Singapore (MAS) consultation on a proposed voluntary industry code of conduct for providers of ESG ratings and data products (“Consultation Paper”).<sup>1</sup> ICI Global carries out the international work of the Investment Company Institute, the leading association representing regulated investment funds. With total assets of \$39.9 trillion, ICI’s membership includes mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and UCITS and similar funds offered to investors in Europe, Asia and other jurisdictions. ICI’s mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. Our members are significant users of ESG ratings, data and related services, and therefore have a strong interest in regulatory developments impacting ESG ratings and data providers.

ICI Global welcomes MAS’ effort to establish minimum standards on governance, management of conflicts of interest, and transparency for ESG ratings and data providers, based on the recommendations IOSCO published in November 2021.<sup>2</sup> We believe that the proposed voluntary industry code of conduct would be an important first step in improving transparency about methodologies underpinning ESG ratings and data products, and at the same time, providing sufficient space and flexibility to allow for the continued growth and evolution of the ESG ratings and data market.

We also appreciate MAS’ recognition of the importance of cross-jurisdictional interoperability and its plan to observe global regulatory development before moving forward with a potential regulatory regime for ESG ratings providers. In order to better align the Singapore code of conduct with similar initiatives in other jurisdictions, and facilitate industry understanding of MAS’ policy objectives and the implementation of the code of conduct in Singapore, **we offer one specific recommendation for MAS’ consideration – to clarify that the scope of the code of conduct excludes ESG ratings and data solely produced for internal or intra-group use.**

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<sup>1</sup> Consultation Paper on Proposed Code of Conduct for Environmental, Social and Governance (“ESG”) Rating and Data Product Providers, 28 June 2023, available at <https://www.mas.gov.sg/publications/consultations/2023/consultation-paper-on-proposed-code-of-conduct-for-esg-rating-and-data-product-providers>.

<sup>2</sup> FR09/21 Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report, November 2021, available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

## QUESTIONS & ANSWERS

***Question 1: MAS seeks views on the proposed definitions of “ESG rating” and “ESG data product”, as well as the list of excluded products.***

The definitions of “ESG rating” and “ESG data product” should specifically exclude data, research, analyses, and ratings solely produced for internal or intra-group use.<sup>3</sup>

We welcome MAS’ approach to defining ESG ratings and data products in a way that aligns with the IOSCO November 2021 recommendations, and support carving out specific types of products where best practices in the code of conduct do not generally need to be applied. In line with this principle, we recommend MAS clarify that ESG ratings and data produced for internal use and not intended to be sold or distributed beyond the same corporate group of affiliated companies are excluded from the definitions of “ESG rating” and “ESG data product.” This clarification would adhere to MAS’ stated policy goals and better align MAS’ code of conduct with similar regulatory and voluntary initiatives in other jurisdictions.

**Specifically, we recommend MAS include the following language to the list of exclusions under both the definitions of “ESG rating” and “ESG data product”:**

*“research analyses, research reports, compiled data or ratings produced by, and used or consumed only within the same corporate group of affiliated companies and are not provided or marketed to third parties on a commercial basis (e.g., for a fee).”*

Distinguishing between ESG ratings and data produced for internal use from products commercially distributed to external parties is especially important for the asset management industry. Asset managers collect ESG data, research, analytics, and ratings from various sources (*e.g.*, regulatory filings, sustainability reports, publicly available data sets, commercial service providers, etc.), and develop analyses based on their specific needs and investment strategies of the relevant funds they manage. These ratings and data are developed for internal use, not for commercial purposes or for distribution to third parties or the wider public, and for manufacturing the end products, *i.e.*, investment funds.

As MAS noted in the Consultation Paper, its policy intention is to capture ESG ratings and data products where it is important for the providers to put in place proper controls on governance and management of conflicts of interest, and provide sufficient transparency of methodologies and data sources. Asset managers’ internal processes for evaluating portfolio companies and other investments, including the use of data and estimations, are already subject to current regulatory and business conduct requirements in Singapore. It would be unnecessary to have a separate set of rules, or code of conduct, that would specifically apply to asset managers’ processes for assessing the ESG aspects of their investments.

The suggested clarification would enhance the interoperability of Singapore’s code of conduct with similar policy initiatives in other jurisdictions. For example, Japan and the UK, while adopting IOSCO’s definitions for ESG ratings and data, each specifically clarify that the ESG ratings and data produced for internal purposes are not intended to be captured by

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<sup>3</sup> We use the term “intra-group” to describe the ultimate holding company, its subsidiaries and any other company or entity treated as part of the ultimate holding company’s group of companies.

their respective voluntary codes of conduct. The Japan Financial Services Agency states that the code of conduct applies to a provider who “provides ESG evaluations and data services as part of its business,”<sup>4</sup> while the ESG Data and Ratings Working Group, convened by the UK Financial Conduct Authority, clarified that “entities who produce ESG ratings/scores or ESG data products that are used or consumed only within the same corporate group of affiliated companies and are therefore not provided or marketed to third parties” are not within scope of its recent proposed code of conduct.<sup>5</sup>

Similarly, both the EU and the UK exclude ESG ratings produced for internal purposes in their proposed regulatory regimes for ESG ratings providers. The European Commission stated in its proposed regulation on ESG ratings providers that “[n]either should such rules apply to ESG ratings produced by European financial undertakings that are used for internal purposes.”<sup>6</sup> This sentiment is echoed by the HM Treasury, noting that “it may not be appropriate to include ESG assessments where ratings are created by an entity solely for use by that entity.”<sup>7</sup>

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## CONCLUSION

Thank you again for the opportunity to provide feedback on the Consultation Paper. We welcome continuing this dialogue with you. If you have any questions, please contact Matthew Mohlenkamp, Managing Director, Asia and Global Analytics, ICI Global, at [matthew.mohlenkamp@ici.org](mailto:matthew.mohlenkamp@ici.org).

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<sup>4</sup> The Code of Conduct for ESG Evaluation and Data Providers, Japan Financial Services Agency, December 2022, at Basic Concepts to the Scope of ESG Evaluation and Data Providers that are to be Called for Support of the Code of Conduct, p.12-15, available at <https://www.fsa.go.jp/news/r4/singi/20221215/02.pdf>,

<sup>5</sup> Draft Voluntary Code of Conduct for ESG Ratings and Data Product Providers For Consultation, ESG Data and Ratings Working Group (DRWG), July 2023, at Negative Scope, p.5, available at <https://www.irsg.co.uk/assets/Papers/DRWG-ESG-Code-of-Conduct-Draft-July-2023.pdf>.

<sup>6</sup> Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities, European Commission, 13 June 2023, at Recital (15), p.16, available at [https://eur-lex.europa.eu/resource.html?uri=cellar:1243bcf3-0ac8-11ee-b12e-01aa75ed71a1.0001.02/DOC\\_1&format=PDF](https://eur-lex.europa.eu/resource.html?uri=cellar:1243bcf3-0ac8-11ee-b12e-01aa75ed71a1.0001.02/DOC_1&format=PDF).

<sup>7</sup> Future regulatory regime for Environmental, Social, and Governance (ESG) ratings providers Consultation, HM Treasury, March 2023, at Chapter 3 Exclusions, p.19-20, available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1147458/ESG\\_Ratings\\_Consultation\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1147458/ESG_Ratings_Consultation_.pdf).