



connecting the future

Consultation Paper 25/34
ESG ratings: Proposed approach to regulation

Financial Conduct Authority
December 2025

Response from
The Payments Association
March 2026

Introduction

The Payments Association welcomes the opportunity to contribute to the FCA CP 25/34 “ESG ratings: Proposed approach to regulation”.

As The Payments Association’s membership includes a wide range of companies from across the payments value chain, and diverse viewpoints across all job roles, this response cannot and does not claim to fully represent the views of all members.

We are grateful to the contributors to this response, which has been drafted by Riccardo Tordera-Ricchi, our Vice President, Policy & Government Relations with assistance from our ESG Working Group Lead Charlie Bronks, Crown Agents Bank. We would also like to express our thanks to the FCA for their continuing openness in these discussions. We hope it advances our collective efforts to ensure that the UK’s payments industry continues to be progressive, world-leading and secure, and effective at serving the needs of everyone who pays and gets paid.

Ben Agnew
CEO
The Payments Association

Our members' views:

Overview

From a payments sector perspective, the FCA's work on ESG ratings is welcome and overdue. Our challenge is not a lack of ESG scores. It is that many existing ratings are opaque, apply very different criteria, rely heavily on estimates and proxies, and are not designed with digital, asset-light business models in mind. For payments firms, ESG ratings increasingly influence capital allocation, commercial relationships and reputation, yet they often fail to reflect how digital financial infrastructure actually operates.

For ESG ratings to be genuinely useful to our sector, we believe three elements are essential:

- **Clarity of purpose:** what exactly the rating is measuring (risk, impact or transition).
- **Transparency on data quality:** what is reported, estimated or proxied, and where data is missing.
- **Sector relevance:** metrics that reflect material issues for payments firms, including:
 - Financial inclusion
 - Fraud and consumer protection
 - AML and financial crime controls
 - Data governance and cyber and operational resilience

Rather than forcing ESG ratings to converge, this regime is about making them usable, explainable and accountable. The core problem is not the number of ESG scores in the market, but the lack of clarity about what those scores mean.

We have also seen first-hand how materially inaccurate ratings can have commercial consequences, including the potential loss of clients. An anonymised case study, produced by our ESG Working Group, is provided at the end of this response.

Question 1: Do you agree with the proposed approach not to apply the Duty to rating providers? If not, please specify what you disagree with and why.

Yes. This approach appears proportionate. ESG ratings are wholesale tools used by firms to inform investment, risk and commercial decisions. They are not products sold directly to retail consumers. Applying the Consumer Duty directly to rating providers would blur accountability in the value chain. What matters is that downstream firms have access to clear, usable information so they can meet their own regulatory obligations. The FCA's transparency-led approach achieves this without misplacing responsibility.

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.

Yes. If ESG ratings influence capital allocation, partnerships and reputational outcomes, then applying basic governance, accountability and control standards is appropriate. Applying the Principles, SYSC and SM&CR-style expectations recognises that ESG ratings now function as market infrastructure. From a user perspective, this improves credibility and trust.

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?

No. Existing regimes do not sufficiently address the risks. ESG ratings can materially influence commercial and financial decisions without consistent standards for transparency, governance or conflicts of interest. This creates friction for users, who must reverse-engineer what ratings measure and how reliable the underlying data is. In one case, a materially inaccurate rating based on outdated proxy data required significant internal resource to correct and had potential commercial consequences. A dedicated regime is therefore justified.

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.

Yes, strongly. Minimum disclosures on objectives, methodologies, data sources and limitations are essential. At present, ratings appear precise without clearly explaining what they are designed to measure. This proposal would reduce the need for firms to reverse-engineer scores simply to understand their meaning.

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 no major gaps but emphasis matters. In particular:

- Clear articulation of the **purpose** of the rating (risk, impact or transition).
- Prominent disclosure of **limitations and uncertainty**.
For digital, asset-light sectors such as payments, misunderstanding rating intent can easily produce misleading conclusions.

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

Yes. Detailed disclosures are necessary if ESG ratings are to be decision-grade inputs. The ability to share contextual disclosures onward is also essential, as ratings increasingly affect procurement, partnerships and client due diligence. Contractual restrictions should not prevent sharing explanatory information needed to avoid misuse or misinterpretation.

Question 7: Are there any key minimum disclosures missing from the proposed list in Table 3? If so, please specify which disclosures and why they should be included.

Particular focus should be placed on:

- Where data is estimated or based on sector proxies.
- How data gaps are handled.
- Drivers of material rating changes.
- Data sources used.

Uncertainty around proxy data is a major challenge in fast-moving digital sectors.

Question 8: Do you agree with our general expectations for transparency? If not, please specify what you disagree with and why.

Yes. Disclosures should be accessible, clear, free and up to date. Trade secret protections should not undermine meaningful transparency. Transparency should support explainability, not just accessibility.

Question 9: Overall, do you expect any significant challenges in implementing the proposed approach to transparency and minimum disclosures? If so, please specify which elements and the nature of the challenges.

There will be implementation effort, particularly for smaller providers and legacy products. However, the benefits outweigh the costs. Improved transparency should reduce the internal burden on users who currently spend time validating and interpreting opaque ratings.

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

Yes. Robust governance is essential if ESG ratings are to be relied upon. Proportionality is important, but users need confidence that ratings are produced under disciplined and accountable processes.

Question 11: Do you agree with the proposed approach to systems and controls, including quality control and methodology, data quality and accuracy, record keeping and personal transactions?

Yes, in principle. Data sources, assumptions and treatment of supply chains must be transparent. Controls should anticipate incentives to game metrics, including outsourcing impacts to improve scores.

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. Notice should be provided with adequate lead time, particularly for material changes, so firms can adapt reporting and business practices. The scale and impact of the change should determine notice periods.

Question 13: Do you agree with our proposed approach to conflicts of interest? If not, please specify what you disagree with and why.

Yes. Conflicts are not necessarily disqualifying, but lack of transparency undermines trust. Disclosure, governance and separation of activities are essential, particularly where providers offer services to rated entities.

Question 14: Do you expect any challenges in implementing the proposed rules? If so, please specify which rules and the nature of the challenges.

Challenges include resourcing, data infrastructure and cross-border consistency. Smaller providers may face higher relative costs.

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.

Yes. Engagement mechanisms are necessary to correct factual inaccuracies without turning ratings into negotiated outcomes.

Question 16: Do you agree with the proposed approach for complaints handling? If not, please specify what you disagree with and why.

Yes, but timelines, escalation paths and separation of factual disputes from methodological disagreements should be clearly defined.

Question 17: Do you expect any significant challenges in implementing the proposed approach for stakeholder engagement or complaints?

Yes. Managing disputes will require resources, but this is necessary for credibility.

Question 18: Do you agree with our proposal to not extend the Financial Ombudsman's compulsory jurisdiction?

Yes.

Question 19: Do you agree with the Financial Ombudsman's proposal to not extend its voluntary jurisdiction?

Yes.

Question 20: Do you agree with the proposal to not provide FSCS cover?

Yes.

Question 21: Do you agree with our approach of applying the standard (Core) SM&CR to ESG rating providers?

Yes. Clear senior accountability is appropriate given market impact.

Question 22: Does the proposed perimeter guidance provide sufficient support?

Partially. Further guidance would be helpful on:

- Internal vs commercial ESG tools
- Embedded ESG metrics
- Supply chain and carbon tools
- Cross-border use and redistribution

Question 23: Do you agree with our proposed application fee structure?

No objection raised.

Question 24: Do you agree that the threshold to define larger ESG rating providers should be £250,000 revenue?

No objection raised.

Question 25: Do you agree with our proposed application of SUP rules?

No objection raised.

Question 26: Comments on enforcement investigations and actions (ENFG)?

No objection raised.

Question 27: Comments on DEPP procedures?

No objection raised.

Question 28: Any additional comments?

Hidden costs are currently borne by users attempting to interpret and challenge ratings. Transitional arrangements and proportionality are essential. A pilot or review period would help assess divergence between providers.

Question 29: Any specific areas difficult to interpret or apply?

Yes. Ambiguity around scope, supply chain treatment and data sources.

Question 30: Do you have any comments on our cost benefit analysis?

The analysis should recognise:

- Internal costs of validating ratings
- Commercial harm from inaccurate scores
- Long-term benefits of trust and usability

Case Study: anonymised and produced by our ESG Working Group

Our organisation received a materially inaccurate ESG rating from a major provider based on outdated proxy data. Correcting it required approximately 18 months of engagement and had commercial implications, as the score was cited by a client during due diligence. Other recognised assessments placed us among top performers, illustrating how methodological opacity can create contradictory outcomes and reputational risk.

Final Position

We support the FCA's proposed regime. It is a necessary and proportionate step in improving the reliability, usability and credibility of ESG ratings.

For payments firms, the priorities are:

- Clarity on what ratings measure
- Transparency on data quality
- Sector-relevant methodologies

If ESG ratings influence capital and reputation, they must be transparent, accountable and genuinely decision-useful.

About The Payments Association

The Payments Association is for payments institutions, big and small. We help our members navigate a complex regulatory environment and facilitate profitable business partnerships.

Our purpose is to empower the most influential community in payments, where the connections, collaboration and learning shape an industry that works for all.

We operate as an independent representative for the industry and its interests, and drive collaboration within the payments sector to bring about meaningful change and innovation. We work closely with industry stakeholders such as the Bank of England, the FCA/PSR, HM Treasury, Pay.UK, UK Finance and Innovate Finance.

Through our comprehensive programme of activities for members and with guidance from an independent Advisory Board of leading payments CEOs, we facilitate the connections and build the bridges that join the ecosystem together and make it stronger.

These activities include a programme of digital and face-to-face events including our annual PAY360 and FC360 conferences, our PAY360 Awards dinner, PA@The City, CEO round tables, webinars, working group events and training activities.

We run eight stakeholder working groups: Cross-Border, Digital Currencies, ESG, Financial Crime, Financial Inclusion, Merchant Payments, Open Banking, and Regulatory. The volunteers within these groups represent the collective view of The Payments Association members at industry-critical moments and work together to drive innovation in these areas.

Our Payments Intelligence team and our working groups aim to produce regular thought-leadership for our membership and beyond. These include data-driven reports, articles, video interviews and podcasts. We also undertake policy development and government relations activities aiming at informing and influencing important stakeholders to enable a prosperous, impactful and secure payments ecosystem.

See www.thepaymentsassociation.org for more information.

Contact malik.smith@thepaymentsassociation.org for assistance.