

Annex 1: Draft Code of Conduct for ESG Rating and Data Product Providers

Disclaimer: The proposed wordings below are in draft form and subject to change.

PREAMBLE

Sustainable investing has become more mainstream globally and there has been an increasing use of ESG ratings and data products for investment and capital allocation. The International Organisation of Securities Commissions (“**IOSCO**”) published the Final Report¹ on “Environmental, Social and Governance (ESG) Ratings and Data Products Providers” in November 2021, to set out recommendations for ESG rating and data product providers on good practices around governance, management of conflicts of interest and transparency, to address the risk of greenwashing. IOSCO has also issued a “Call for Action” paper² to promote the adoption and implementation of the good practices stemming from the IOSCO recommendations.

This industry Code of Conduct for ESG Rating and Data Product Providers (“**Code**”) was developed jointly by industry participants and the Monetary Authority of Singapore (“**MAS**”). The Code is largely modelled on the recommended good practices set out in the IOSCO’s Call for Action paper, with additional Singapore specific requirements highlighted in yellow.

The industry Code is to be applied by ESG rating and data product providers on a “Comply or Explain” basis. That is, providers will comply with the principles and best practices set out in the Code, or explain why they do not comply with the Code (or specific principles/best practices). We encourage ESG rating and data product providers to adopt and comply with the Code, and to publish their assessment of compliance. In addition, market participants who use the ESG ratings and/or ESG data products are encouraged to engage providers who adopt the Code. Taken together, this would elevate standards in the ESG ratings and data products industry, and better enable market participants to assess the products against their needs.

¹ The IOSCO report is available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>.

² The IOSCO “Call for Action” paper is available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD717.pdf>.

DEFINITIONS OF COMMON TERMS USED IN THE CODE

For the purpose of this Code:

“capital markets products” has the same meaning as in section 2(1) of the Securities and Futures Act 2001³;

“covered entity” means any rating target; or any entity covered by the ESG data product;

“ESG data product” means the broad spectrum of data products that entail, at minimum, collection and/ or aggregation of raw data to which estimations, calculations or analysis has been added, and that are marketed as providing either a specific Environmental, Social, or Governance (“ESG”) focus on an entity, a real estate investment trust, a business trust or a capital markets product’s environmental, social or governance profile or characteristics, but does not include:

- (a) raw data or aggregated raw data which does not entail added estimations, calculations or analysis;
- (b) an ESG rating;
- (c) a credit rating that takes into account any environmental, social or governance profile or characteristics of a rating target in the assessment of the credit worthiness of the rating target;
- (d) research analyses or research reports concerning any investment product that is issued or promulgated by a licensed or exempt financial adviser under the Financial Advisers Act 2001⁴; or
- (e) financial benchmarks, as defined by the International Organisation of Securities Commissions,

where

- (i) “environmental, social or governance profile or characteristic” includes but is not limited to exposure to climatic or environmental, societal and governance risks; and impact on the environment and society; and
- (ii) “entity” has the same meaning as in section 2(1) of the Securities and Futures Act 2001;

“ESG Data Product Provider” means any entity providing any ESG data product directly to participants in the financial market in Singapore as part of its business continuously and repeatedly, in relation to activities and institutions in the securities and derivatives industry; but does not include:

- (a) academic or research institutions solely providing specialised knowledge and data on ESG for academic purposes;
- (b) an entity solely providing consulting services to companies on improvements from an ESG perspective;
- (c) an entity solely providing information aggregation that compiles ESG data on a general website or subscription-based model;
- (d) an entity solely providing data in respect of general surveys on ESG factors; or

³ The Securities and Futures Act 2001 is accessible at <https://sso.agc.gov.sg/Act/SFA2001>.

⁴ The Financial Advisers Act 2001 is accessible at <https://sso.agc.gov.sg/Act/FAA2001>.

- (e) an entity solely providing news reporting services.

“ESG rating” means a product that provides an opinion regarding any one or more ESG profile or characteristic of a rating target, that is expressed using an established and defined ranking system of rating categories, but does not include:

- (a) a credit rating that takes into account any ESG profile or characteristic of a rating target in the assessment of the credit worthiness of the rating target; or
- (b) research analyses or research reports concerning any investment product that is issued or promulgated by a licensed or exempt financial adviser under the Financial Advisers Act 2001,

where

- (i) “rating target” means, the subject of an ESG rating which may be an entity, a real estate investment trust, a business trust, or a capital markets product;
- (ii) “rating category” means –
 - (a) an ordinal rank or score used in an ESG rating (e.g. letters, numbers, words, or any other symbols), to provide a relative measure of performance of a rating target in any one or more ESG profile or characteristic, to that of other rating targets; or
 - (b) an ordinal rank or score used in an ESG rating (e.g. letters, numbers, words, or any other symbols), to provide an absolute measure of performance of a rating target in any one or more ESG profile or characteristic;
- (iii) “environmental, social or governance profile or characteristic” includes but is not limited to exposure to climatic or environmental, societal and governance risks; and impact on the environment and society; and
- (iv) “entity” has the same meaning as in section 2(1) of the Securities and Futures Act 2001;

“ESG Rating Provider” means any entity offering ESG rating in Singapore or providing ESG rating out of Singapore, that relates to activities and institutions in the securities and derivatives industry;

“ESG rating and data products” means any ESG rating and/or any ESG data product;

“ESG Rating and Data Product Provider” means any ESG Rating Provider, any ESG Data Product Provider, or any provider of both ESG rating and ESG data product;

“immediate family”, in relation to an individual, means the individual’s spouse, son, adopted son, step-son, daughter, adopted daughter, step-daughter, father, step-father, mother, step-mother, brother, step-brother, sister or step-sister;

“interest” includes an interest of any nature, whether legal, equitable, proprietary or otherwise;

“personnel”, in relation to the ESG Rating Provider, means the officers and employees of the ESG Rating Provider;

“rated entity” means the rating target or, in the case of a rating target that is a capital markets product, the issuer of the capital markets product;

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PRINCIPLES AND BEST PRACTICES

Principle 1: The ESG Rating and Data Product Provider should adopt and implement written policies and procedures designed to ensure the issuance of high quality ESG rating and data products based on publicly disclosed data sources where possible, and other information sources where necessary, using transparent and defined methodologies.

In order to produce high quality ESG rating and data products, it is important for the provider to have adequate expertise, human resources and technological capabilities to perform the assessments. It should put in place proper policies and procedures in respect of its ESG rating and data products methodologies and assessment process, conduct regular reviews of its products and their methodologies, and undertake regular evaluations of its methodologies against the outputs which they have been used to produce. The ESG Rating and Data Product Provider should provide transparency, where reasonably possible, around the sources of data (e.g. publicly or privately sourced data or information) used in determining its ESG rating and data products. The ESG Rating and Data Product Provider and its personnel should also use transparent and defined ESG rating and data products methodologies in a consistent manner.

Best Practices

1. The ESG Rating and Data Product Provider should:
 - a. adopt and implement written policies and procedures to ensure that the ESG rating and data products that it prepares are based on a thorough analysis of all relevant information available to it;
 - b. adopt, implement and provide transparency around the methodologies for its ESG rating and data products that are rigorous, systematic, applied continuously, while maintaining a balance with respect to proprietary or confidential aspects of the methodologies;
 - c. for ESG rating, conduct and publish on a regular basis, an evaluation of its methodologies against the outputs which they have been used to produce;
 - d. subject the ESG rating and data products methodologies (including data sources) to regular review, and sufficiently communicate information regarding changes made to the methodologies as well as its views on the potential impact of these changes to the ESG rating and data products;
 - e. provide transparency, where reasonably possible, around the sources of data used in determining its ESG rating and data products, including the use of any industry averages, estimations or other methodologies when actual data is not accessible to it. This may include transparency around the timeliness of data used, the time period of

the data used, as well as whether the data is publicly sourced or proprietary in nature, including through approximations;

- f. monitor on an ongoing basis, and regularly update the ESG rating and data products, except where specifically disclosed that the ESG rating is a point in time rating by –
 - reviewing, on a regular basis, the ESG ratings of the rated entity;
 - initiating a review of the ESG ratings upon becoming aware of any public information that may reasonably be expected to result in a revision or termination of the ESG ratings, consistent with the rating methodology; and
 - updating on a timely basis the ESG ratings, as appropriate, based on the results of such review;
- g. maintain records to support every ESG rating and data products that it issues. Such records can be kept for at least 6 years from the issue date of the relevant ESG rating and data products;
- h. ensure that relevant personnel involved in preparing and deliberation of the ESG rating and data products are, individually or collectively where relevant, (for example when there are rating committees) professional, competent and persons of integrity;
- i. ensure that it has adequate resources to produce high-quality ESG rating and data products of the covered entity, including sufficient personnel and technological capabilities, to seek out information it needs in order to make an assessment, analyse all information relevant to its decision-making processes, and provide quality assurance. For ESG rating, when deciding whether to rate or continue rating a rated entity, the ESG Rating Provider should assess whether it is able to devote sufficient personnel with the necessary skill sets to make a proper ESG rating assessment, and whether its personnel will likely have access to sufficient information needed in order to produce the ESG rating. It should adopt reasonable measures so that the information it uses in assigning an ESG rating is of sufficient quality to support a credible ESG rating. The ESG rating should also be based on publicly disclosed data sources, and other information sources where necessary, using transparent and defined methodologies. If the ESG rating is based on limited data, it should make clear, in a prominent place, the limitations of the ESG rating;
- j. consider offering ESG rating and data products to clients in a machine-readable format; and
- k. for ESG ratings, the ESG Rating Provider and its personnel should not, either implicitly or explicitly, give any assurance or guarantee of any particular ESG rating prior to the ESG rating assessment.

Principle 2: The ESG Rating and Data Product Provider should adopt and implement written policies and procedures designed to ensure its decisions are independent, free from political or economic interference, and appropriately address potential conflicts of interest that may arise from, among other things, its organisational structure, business or financial activities, financial interests, and personnel.

Principle 3: The ESG Rating and Data Product Provider should identify, avoid or appropriately manage, mitigate and disclose potential conflicts of interest that may compromise the independence and objectivity of its operations.

Proper management of conflicts of interest is key to ensuring the reliability and independence of ESG rating and data products. To manage potential conflicts of interest in respect of ESG rating and data products, the ESG Rating and Data Product Provider should have in place robust and transparent governance processes around business models (including fee structures), conflicts of interest policies, and management systems. These include putting in place measures designed to ensure that (i) its ESG rating and data products are not affected by its (or its affiliates) business relationship with any entity or any party for which it provides ESG rating and data products; (ii) its personnel exercise independence in preparing the ESG rating and data products; and (iii) there is proper separation between the various business lines of ESG Rating and Data Product Provider, and other conflicting business lines such as consulting services.

Best Practices

2. The ESG Rating and Data Product Provider should:
 - a. adopt written policies, procedures and mechanisms designed to (i) identify, and (ii) eliminate, or manage, mitigate and disclose, as appropriate, any actual or potential conflicts of interest related to its ESG rating and data products that may influence the opinions and analyses it makes or the judgment and analyses of the personnel it employs who have an influence on its decisions on the ESG rating and data products. Accordingly, for ESG rating, it should adopt written policies, procedures and mechanisms designed to identify, manage, mitigate and disclose conflicts of interest between ESG ratings and other business lines which can reasonably be considered to give rise to actual or perceived conflicts of interest (e.g. ESG consulting or advisory businesses);
 - b. disclose its conflicts identification and management measures;
 - c. take steps that are designed to ensure its ESG rating and data products would not be influenced by the existence of or potential for a business relationship between it (or its affiliates) and any entity or any other party for which it provides ESG rating and data products;

- d. put in place measures to help ensure its personnel refrain from any securities or derivatives trading presenting inherent conflicts of interest with its ESG rating and data products;
 - e. structure reporting lines for its personnel and their compensation arrangements to eliminate or appropriately manage actual and potential conflicts of interest related to its ESG rating and data products;
 - f. not compensate or evaluate research or analytical personnel on the basis of the amount of revenue derived from an entity that its personnel provide ESG rating and data products for, or with which its personnel regularly interacts regarding such ESG rating and data products;
 - g. where consistent with confidentiality, contractual and other business, legal and regulatory requirements, disclose the nature of the compensation arrangement or any other business or financial relationships that exist with an entity for which it provides ESG rating and data products.
3. For ESG rating that is prepared on an issuer-paid basis, the ESG Rating Provider should not enter into any contingent fee arrangement for providing ESG rating services. For the purpose of this paragraph, a contingent fee is a fee where the amount of which is determined by reference to the outcome of a transaction or the result of services provided by the ESG Rating Provider.

Principle 4: The ESG Rating and Data Product Provider should make adequate levels of public disclosure and transparency a priority for its ESG rating and data products, including their methodologies and processes to enable the users of the ESG rating and data products to understand what the product entails and how it is produced, while maintaining a balance with respect to proprietary or confidential information, data and methodologies.

The lack of transparency in the process of developing ESG rating and data products could make it difficult for users to understand and interpret the output of these products. The ESG Rating and Data Product Provider should provide transparency around its methodologies, assessment process, and any material modifications made to these. It should also make adequate levels of public disclosure around the source of the data and information used in determining its ESG rating and data products (e.g. in its methodologies), including, where relevant, the use of any industry averages, estimations or other methodologies when actual data is not available (e.g. unavailability of publicly reported data if it is used for the product).

Best Practices

4. The ESG Rating and Data Product Provider should:
 - a. make adequate levels of public disclosure and transparency a priority for its ESG rating and data products, subject to commercial sensitivity considerations;
 - b. clearly label its ESG rating and data products to enable the user to understand the ESG rating's or ESG data product's intended purpose including its measurement objective;
 - c. make adequate levels of public disclosure, where reasonably possible, around the sources of data (e.g. publicly or privately sourced data or information) it relies on in offering ESG rating and data products, including the use of industry averages, estimations or other methodologies when actual data is not available (e.g. unavailability of publicly reported data if it is used for the product);
 - d. make adequate levels of public disclosures on procedures and methodologies underlying its ESG rating and data products to enable the users of these products to understand how their outputs were determined; and
 - e. make adequate levels of public disclosure on ESG rating and data products methodologies that include, but not limited to:
 - the measurement objective of the ESG rating and data products (e.g. measuring impact of the covered entity on the external environment and society, and/or measuring risk exposure and resilience of the covered entity to physical and transition ESG risks);
 - the criteria used to assess the covered entity;
 - the Key Performance Indicators used to assess the covered entity against each criterion (e.g. thresholds used to measure the ESG impacts and/or ESG risks, and

related mitigation and adaptation measures), including the use of forward looking strategic plans and targets of the covered entity in the assessment;

- the relative weighting of these criteria to that assessment;
- the scope of business activities and group entities included in the assessment;
- the principal sources of qualitative and quantitative information used in the assessment as well as information on how the absence of information was treated;
- the time horizon of the assessment; and
- the meaning of each assessment category (where relevant).

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Principle 5: The ESG Rating and Data Product Provider should adopt and implement written policies and procedures designed to address and protect all non-public information received from or communicated to it by any entity, or its agents, related to its ESG rating and data products, where appropriate in the circumstances.

Where non-public information is used in the preparation of ESG rating and data products, the ESG Rating and Data Product Provider should have, and be transparent about, data confidentiality arrangements and written policies and procedures designed to address the use and management of non-public information in place. The ESG Rating and Data Product Provider should ensure that it and its personnel do not share non-public information entrusted to it unless permitted under the relevant confidentiality agreement or relevant provider practices.

Best Practices

- 5A. The ESG Rating and Data Product Provider should:
- a. adopt and implement written policies, procedures and mechanisms related to its ESG rating and data products designed to address and protect the non-public nature of information which is shared with it by entities under the terms of a confidentiality agreement or otherwise under a mutual understanding that the information is shared confidentially. For ESG ratings, unless otherwise permitted by the confidentiality agreement and consistent with applicable law and regulations, the ESG Rating Provider and its personnel should not disclose non-public information in press releases, through research conferences, to future employers, or in conversations with investors, other issuers, other persons, or otherwise;
 - b. adopt and implement written policies and procedures designed to address the use of non-public information only for purposes related to its ESG rating and data products or otherwise in accordance with its confidentiality arrangements with the entity; and
 - c. include information on data confidentiality management and on the protection of non-public information to the extent terms of engagement are published.
- 5B. For ESG ratings that are prepared on an issuer-paid basis, the ESG Rating Provider should ensure that its personnel do not selectively disclose any information that are not publicly available about the ESG ratings or possible future issues or revisions of any ESG rating by it, except to the issuer of the capital markets product or its designated agents.

Principle 6: The ESG Rating and Data Product Provider should ensure that information gathering processes with the covered entity, where relevant, is done in a manner that leads to efficient information procurement for it and these entities.

Principle 7: Where feasible and appropriate, the ESG Rating and Data Product Provider should respond to and address issues raised by the covered entity while maintaining the objectivity of these products.

To support efficient and effective interactions between the ESG Rating and Data Product Provider and the covered entity, the ESG Rating and Data Product Provider should provide a point of contact to address any requests or queries from the covered entity on the ESG rating and data products, as well as provide forward visibility to the covered entity on its assessment process, when data is likely to be requested and how the data will be handled, where it is feasible and appropriate to do so.

Best Practices

6. Where the ESG Rating and Data Product Provider collects information from covered entity on a bilateral basis, or through questionnaires, it should consider:
 - a. communicating sufficiently in advance when it expects to request information for the purposes of preparing the ESG rating and data products; and
 - b. including in its requests, pre-inputted information either from publicly available sources or from the covered entity's previous submissions, where reasonably possible, for the covered entity's review or confirmation.
7. The ESG Rating and Data Product Provider should:
 - a. provide a clear and consistent contact point with whom the covered entity can interact to address any queries relating to the assessment provided by the ESG Rating and Data Product Provider;
 - b. expeditiously inform the covered entity of the principal grounds on which the:
 - i. ESG rating is based, before or after the publication of the ESG rating; and
 - ii. ESG data product is based, before or after the publication of the ESG data product, where practicable;
 - c. allow the covered entity time to draw attention to any factual errors, including the data and information underlying the:
 - i. ESG rating; and
 - ii. ESG data product, where practicable;

- d. publish terms of engagement describing how and when it will typically engage with the covered entity, including when information is likely to be requested and the opportunities available to the covered entity for review.

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