



Circular

F. No. IFSCA-PLNP/12/2024-Capital Markets

October 30, 2024

To

All entities desirous of acting as 'ESG Ratings and Data Products Providers' in the International Financial Services Centre (IFSC)

Madam/Sir,

Sub: Framework for ESG Ratings and Data Products Providers in the IFSC

- 1) Globally, the role of Environmental, Social and Governance Ratings and Data Products Providers 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 ESG Ratings and Data Products Providers.
- 2) IOSCO published a report in November 2021 on "Environmental, Social and Governance (ESG) Ratings and Data Products Providers" (ERDPPs) 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 2023, for ERDPPs.
- 4) SEBI, vide circular titled *"Enabling ESG Rating Providers (ERPs) to undertake ESG rating activities under IFSCA"* dated July 19, 2024, has also enabled SEBI registered ESG Rating Providers to undertake ESG rating activities in the IFSC in accordance with the framework specified in this regard by the International Financial Services Centres Authority ("Authority").

- 5) The Authority, vide circular titled *“Enabling Credit Rating Agencies to undertake additional activities relating to ESG Ratings and Data Products Providers”* dated July 31, 2024 and Master Circular titled *“Master Circular for Credit Rating Agencies”* dated October 01, 2024, has permitted Credit Rating Agencies, registered with the Authority to undertake activities relating to ESG Ratings and ESG Data Products also in accordance with the said circulars.
- 6) In this background, with an objective to further develop the ecosystem for ESG Ratings and ESG Data Products in the IFSC, the Authority hereby specifies ESG Ratings and Data Products Providers as intermediaries under clause (d) of sub-regulation (2) of regulation 3 of the IFSCA (Capital Market Intermediaries) Regulations, 2021(‘CMI Regulations’) and further specifies the following framework for ERDPP registered with Authority under CMI Regulations for undertaking activities relating to ESG Ratings and Data Products :

Applicability

- 7) This circular shall apply to the entities desirous of undertaking activities relating to ESG Ratings and ESG Data Products from the IFSC.

Definitions

- 8) For the purpose of this circular, unless the context otherwise requires, the terms defined herein shall bear the meanings assigned to them, and their cognate expressions and variations shall be construed accordingly:

- (i) “ESG Data Products” shall include products and services relating to ESG-related information;
- (ii) “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;
- (iii) “ESG Ratings and Data Products Provider (ERDPP)” shall mean an entity engaged in the activity (ies) of providing services relating to ESG Rating or ESG Data Product;

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;

- (iv) “Registered ERDPP” refers to an ERDPP which has been granted certificate of registration under the CMI Regulations.

Obligation to seek Registration

- 9) An entity desirous of acting as Registered ERDPP for undertaking activities relating to ESG Ratings and ESG Data Products in the IFSC, shall be required to seek registration under CMI Regulations and also comply with the requirements specified in this circular besides complying with all applicable norms under the Regulations, and any other circular or guidelines issued by the Authority in this regard, from time to time:

Provided that a Credit Rating Agency, registered with the Authority under CMI Regulations, shall not be required to obtain separate registration for acting as ERDPP under this Framework.

- 10) Securities and Exchange Board of India, vide circular dated July 19, 2024 on “Enabling ESG Rating Providers (ERPs) to undertake ESG rating activities under IFSCA” permitted the ESG Rating Providers registered with SEBI to undertake ESG rating activities in the IFSC in accordance with regulation 28E (d) of SEBI (Credit Rating Agencies) Regulations, 1999 read with para 7.1 of the master circular of SEBI for ESG Rating providers dated May 16, 2024. Para 7.1 of the master circular provides that “CRA Regulations allow ERPs to undertake or offer ESG rating of any product or issuer, as may be required by another financial sector regulator or authority, as may be specified by SEBI, under the guidelines of such regulator or authority.”
- 11) An ESG Rating Provider (ERPs), registered with SEBI, desirous of undertaking activities relating to ESG Ratings and ESG Data Products in the IFSC, shall apply to the Authority for registration under the CMI Regulations.

Application for registration

- 12) Any entity desirous to seek registration with the Authority for acting as Registered ERDPP, shall submit an application to the Authority in the format specified in **Annexure I** (Common Application Form) and **Annexure II** (Additional information specific to ERDPPs).
- 13) The application shall be accompanied by a non-refundable application fee, as specified in **Annexure III**.

Legal Form of applicant

- 14) An entity seeking registration with the Authority for acting as Registered ERDPP shall be required to be present in the IFSC by establishing a branch or forming a company or limited liability partnership or body corporate or any other form as may be permitted by the Authority:

Provided that the branch structure is permitted only for an entity which is already undertaking activities relating to ESG Ratings or ESG Data Products in India or in a Foreign Jurisdiction:

Provided further that such entity shall ring-fence its activities in the IFSC from its other activities.

Net Worth Requirements

- 15) An entity seeking registration for acting as Registered ERDPP shall maintain net worth of at least USD 25,000 at all times.

Fit and proper requirements

- 16) An entity seeking registration for acting as Registered ERDPP shall ensure that the entity and its principal officer, directors/designated partners, key managerial personnel and controlling shareholders are fit and proper persons, at all times, in accordance with the requirements specified under CMI Regulations.

Appointment of Principal Officer and Compliance Officer

- 17) The Registered ERDPP shall have at least one person designated as Principal Officer who shall have:
 - (i) a professional qualification or post-graduate degree or post graduate diploma (minimum two years in duration) in finance, law, accountancy, business management, commerce, economics, capital market, banking, insurance or actuarial science from a university or an institution recognised by the Central Government or any State Government or a recognised foreign university or institution or association or a CFA Charter from the CFA Institute; and
 - (ii) adequate experience in activities relating to credit ratings or ESG Ratings or ESG Data Products.
- 18) The Registered ERDPP shall designate a person as its Compliance Officer for ensuring compliance with the regulatory requirements.
- 19) The Registered ERDPP shall have adequate human resources commensurate with its business activities in the IFSC.
- 20) The Registered ERDPP shall ensure that the employees who are directly involved in activities relating to ESG Ratings and ESG Data Products are appropriately trained and have the knowledge and necessary experience for the performance of the duties and tasks assigned.

Registration Requirements

- 21) The Authority shall take into account all matters which it deems relevant for grant of registration and in particular and shall have the following:

- (i) the applicant shall have necessary infrastructure like adequate office space, equipment, communication facilities and manpower to effectively discharge its activities;
- (ii) the applicant shall have and maintain the minimum net worth as required under the provisions of this circular;
- (iii) the principal officer shall meet the qualification and experience requirement specified in this circular;
- (iv) the applicant shall have satisfactory financial credit worthiness; and
- (v) the applicant and its principal officer, directors/ designated partners, key managerial personnel and controlling shareholders are fit and proper persons.

Grant of registration

- 22) The Authority may, after considering the application and on being satisfied that the applicant is eligible to act as Registered ERDPP and has complied with the conditions laid down in CMI Regulations, this circular and other applicable norms, and upon receipt of registration fees as specified by the Authority, grant registration to the applicant subject to such conditions as the Authority may deem fit.
- 23) If the Authority is of the opinion that the registration cannot be granted, it shall communicate the deficiencies to the Applicant giving it thirty days' time to rectify them.
- 24) If the Applicant fails to rectify such deficiencies to the satisfaction of the Authority within the specified time, the Authority may refuse to grant registration and shall communicate the same to the Applicant, giving reasons for such refusal:

Provided that no such refusal shall be made by the Authority without giving the applicant an opportunity to make written submissions on the grounds on which the registration is proposed to be refused.

- 25) A Registered ERDPP shall, inter-alia, comply with any other condition as may be imposed by the Authority as it deems fit for orderly development of the securities market or for regulating the working of the capital market intermediary, in an IFSC.
- 26) The registration granted to a Registered ERDPP may be withdrawn by the Authority only after giving a reasonable opportunity of being heard.

Surrender of registration

- 27) A Registered ERDPP may file an application with the Authority for surrender of its registration.

Explanation: The surrender of certificate of registration by the Registered ERDPP shall be effective only after approval by the Authority.

Permissible Activities

- 28) A Registered ERDPP may undertake services relating to ESG Ratings and ESG Data Products in the IFSC or a Foreign Jurisdiction.
- 29) A Registered ERDPP shall not provide any other service without the prior approval of the Authority.

Code of Conduct

- 30) A Registered ERDPP shall adhere to the following “Code of Conduct”, on a “comply” or “explain” basis:

(a) Principle on Good Governance

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

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

ERDPP 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) ERDPP shall adopt and implement written policies and procedures designed to help ensure that its 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, ERDPP’s organisational structure, business or financial activities, or the financial interests of the ERDPP, its officers and employees.

(ii) ERDPP 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 ERDPP’s operations.

(d) Principle on Transparency

ERDPP shall make adequate levels of public disclosure and transparency a priority for its ESG Ratings and Data Products, including its 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)

ERDPP shall 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 their ESG Ratings and ESG Data Products, in a manner appropriate in the circumstances.

(f) Principles on Engagement (Systems and Controls)

(i) ERDPP shall regularly consider whether its information gathering processes with entities covered by its products lead to efficient information procurement for both the providers and these entities. Where potential improvements to information gathering processes are identified, the ERDPP shall consider what measures can be taken to implement them.

(ii) Where feasible and appropriate, the ERDPP shall respond to and address issues flagged by entities covered by its ESG Ratings and Data Products and by users while maintaining the independence and integrity of these products.

ESG Ratings process

- 31) A Registered ERDPP providing ESG Ratings shall have guidelines / criteria / methodology on the rating process and the same shall be disclosed on its website.

Segregation

- 32) A Registered ERDPP shall segregate its activities relating to ESG Ratings and ESG Data Products from its other activities to ensure that there is no conflict of interest between these activities.

Continuous Disclosures

- 33) A Registered ERDPP shall disclose compliance of the “Code of Conduct” provided at paragraph 30 above on a “comply” or “explain” basis on its website.
- 34) A Registered ERDPP shall disclose all ESG Ratings provided by it on its website.

Annual Audit

- 35) A Registered ERDPP 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 CMI Regulations.
- 36) The annual audit shall, inter-alia, also cover all aspects relating to ERDPPs and the compliance with the requirements mentioned in this circular.

Maintenance of books of account, records and other documents

- 37) A Registered ERDPP shall maintain and preserve the books of account, records and other documents in accordance with regulation 14 of the CMI Regulations.

Information to the Authority

- 38) A Registered ERDPP shall furnish to the Authority any material changes in the information or particulars previously furnished along with the application, which has a bearing on the certificate of registration granted to it.
- 39) A Registered ERDPP shall furnish such reports, returns, statements and particulars, in such manner, interval and form, as may be specified by the Authority from time to time.

Redressal of Grievances

- 40) A Registered ERDPP shall take adequate steps for redressal of grievances received by it in connection with ESG Rating and ESG Data Products.
- 41) A Registered ERDPP shall maintain records related to the grievances received by it and redressal of such grievances.

Business Continuity Plan

- 42) A Registered ERDPP shall have a business continuity plan in accordance with regulation 17 of the CMI Regulations.

Risk Management and Internal Controls

- 43) A Registered ERDPP shall have a sound risk management system for comprehensively managing risks in accordance with regulation 19 of the CMI Regulations.

Change in control

- 44) Where a Registered ERDPP is operating in the form of branch in the IFSC, the ERDPP shall intimate to the Authority within fifteen days of any direct or indirect change in control of the entity.
- 45) Where a Registered ERDPP is incorporated in the IFSC, the ERDPP shall seek prior approval of the Authority in case of any direct or indirect change in control of the entity.

Power to call for information

- 46) The Authority may call for any information, documents or records from a Registered ERDPP and the Registered ERDPP shall provide such information, documents or records as and when sought by the Authority.

This circular is issued in exercise of powers conferred by Section 12 and 13 of the International Financial Services Centres Authority Act, 2019, read with clause (d) of sub-regulation (2) of regulation 3, sub-regulation (4) of regulation 3 and regulation 72 of the CMI Regulations, and shall come into force with immediate effect.

A copy of this circular is available on the website of the International Financial Services Centres Authority at www.ifsc.gov.in .

Yours faithfully,

Arjun Prasad
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Annexure I: Common Application Form

Common Application Form available on IFSCA website under the section “Application Process” → “How to Apply” at the weblink:

<https://ifsc.gov.in/Pages/Contents/HowToApply>

Annexure II

Additional Information specific to ERDPPs

- 1) Provide details of experience of the applicant and its principal officer, KMPs and Directors/ Designated Partners, particularly relating to credit ratings, ESG Ratings and ESG Data Products.
- 2) Provide details of all rating activities (including credit rating and ESG Ratings) handled by the applicant in the last three years.

(In case of subsidiary, provide details of holding company)

- 3) Provide details of all activities relating to ESG Data Products handled by the applicant in the last three years.

(In case of subsidiary, provide details of holding company)

- 4) Provide details regarding qualification of its principal officer
- 5) Provide details of infrastructure including computing facilities, office space, equipment, manpower, facilities for research and database available with the company and whether the existing infrastructure is adequate to carry on the ESG Rating activities / ESG Data Products (as the case may be) proposed to be undertaken by the applicant.

Annexure III: Regulatory Fees

Application Fee	USD 1,000
Registration Fee	USD 3,500
Annual Fee (post year of registration)	USD 3,500

Please refer to IFSCA circular **F. No.865/IFSCA/Banking/Fee Revision/2022-23** dated **May 17, 2023** (as amended from time to time) for the manner of payment of fees.

In terms of Processing Fees, the applicable fees on ERDPPs shall be on same lines as provided for CRAs in the aforesaid circular dated May 17, 2023 (as amended from time to time).