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ICMA Working Group to Develop Voluntary Code of Conduct for Hong Kong ESG Ratings

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On October 31, 2023, the **International Capital Market Association (ICMA)** announced that it would be forming a working group to develop a voluntary code of conduct for Hong Kong-based ESG ratings and data providers. ICMA will coordinate with asset managers and working group members, including Bloomberg and Fidelity International, to establish best practices.

With the object of global interoperability, the code's development will be based upon International Organization of Securities Commissions' (IOSCO) recommendations, especially across four key areas: transparency, governance, conflicts of interest, and systems and controls. This project is sponsored by the Hong Kong Securities and Futures Commission (HK SFC), which will observe the working group's progress along with the Hong Kong Monetary Authority.

Julia Leung, CEO of HK FSC, **expressed hope** that Hong Kong's voluntary code of conduct would "strengthen the transparency, quality and reliability of ESG information used by licensed corporations in their investment decisions." The end product is intended to streamline asset managers' due diligence process on ESG service providers.

Taking the Temperature: As we discussed last year, but still holds true today, there is continuing concern that ESG ratings providers are not consistent in the methodologies that they apply, and, as a result, the ratings are of limited utility for consumers of that information. A key consideration for ratings is consistency. For example, in May of this year, MSCI also **announced a change** to its ESG Rating Methodology, which resulted in downgrades to 31,000 of the funds rated by MSCI. Methodological changes that have such significant impacts on ratings are likely to amplify calls for regulation, particularly as ratings methodologies remain unclear, the sources of information supporting scores varies, and scores diverge among different providers. Regulators have begun to take action by publishing frameworks for ratings providers in the **UK** and in the **EU**.