

LCP's response to FCA Consultation 25/34

ESG (Environmental, Social, Governance) ratings: Proposed approach to regulation

31 March 2026

This document sets out LCP's response to FCA Consultation 25/34: "ESG (Environmental, Social, Governance) ratings: Proposed approach to regulation" published in December 2025, which sets out proposed rules and guidance for the regulation of ESG ratings providers.

Who we are

LCP is a firm of financial, actuarial, and business consultants, specialising in pensions, investment, insurance, energy, health and business analytics. We have over 1,200 people in the UK, including over 190 partners and around 250 qualified actuaries.

About 80% of our work is advising trustees and employers on all aspects of their pension arrangements, including investment strategy. The remaining 20% relates to insurance consulting, energy, health and business analytics.

LCP is authorised and regulated by the Financial Conduct Authority for some insurance mediation activities only and is regulated by the Institute and Faculty of Actuaries under the Designated Professional Body (DPB) regime for a range of investment business activities.

Overview of our response

We welcome the opportunity to respond to **CP25/34** on the proposed regulatory framework for ESG ratings providers. We support the FCA's objective of improving transparency, integrity and trust in the ESG ratings market. However, we are concerned that the proposed framework could place significant operational burdens on certain providers whose activities present a much lower risk of harm than those the regime appears primarily designed to address.

Our firm provides ESG assessments in a number of contexts, including ratings of:

- investment management services delivered by specific investment teams;
- investment management firms at an organisational level;
- individual investment funds; and
- bulk annuity providers.

In the final case above, we were an early mover within our industry in advising clients securing their DB pension scheme liabilities with a provider to take into account the quality of integration of ESG considerations in the provider's bulk annuity business. We review insurers annually for this purpose¹.

In many cases, these assessments form part of a broader investment advisory service; they already sit within our existing regulatory perimeter, and, therefore, fall outside the proposed ESG ratings regime.

That said, a limited subset of our services would appear to fall within scope of the proposals. Based on our current understanding, the compliance obligations associated with the ESG ratings regime would be substantial. As a result, we would need to consider carefully whether it would remain feasible to continue offering those services.

The ESG ratings activities covered by the consultation appear to have been primarily designed to regulate providers whose ratings are used by market participants when deciding whether to buy or sell securities issued by

¹ Where our response refers to investment managers and funds, similar comments typically apply to bulk annuity providers and their products.

the rated entity, such as shares or bonds. In those cases, there is a clear risk that ratings could directly affect market prices, creating the potential for distortion or investor harm where ratings are inaccurate or conflicted.

Our services are materially different from that use case. Our assessments focus on the ESG integration practices of investment management firms and the investment processes used to manage their investment funds, rather than on corporate issuers of financial instruments. The potential for direct market impact is therefore significantly lower.

There are also important differences in methodology and delivery. Our approach is largely qualitative, with a focus on investment processes, stewardship and organisational capability. This contrasts with many ESG ratings of issuers, which are often built on large-scale algorithmic-driven scoring frameworks applied across broad company universes. The proposals in the consultation refer to a prescriptive approach to generating ESG ratings – eg referring to data, models, assumptions and weights – which differs in form and objectives from our approach.

The proposed complaints-handling requirements could prove unworkable in practice for us. We actively engage with investment managers about our ESG assessments of them. However, the proposed complaints handling regulations pose a risk of a substantial increase in the resources needed. Addressing complaints about a qualitative assessment is likely to be substantially more time- and resource-intensive than addressing disputes about a more standardised algorithmically driven score. One way to address that concern may be for us to move towards a less detailed and/or more mechanically oriented approach. This would make queries easier to address but at the potential cost of a loss of value-adding judgemental insights.

A further distinction is that our work is typically commissioned by clients seeking bespoke advice. The ESG analysis that we undertake for a given investment product is typically not client specific. However, the weight attached to that information in our advice may potentially differ depending upon an individual client's own priorities and responsible investment frameworks.

We do not rate a broad universe of investment products or issue widely distributed public ratings. Rather, we provide assessments of specific investment management products or firms on behalf of institutional clients. In that context, some of the consultation's proposed requirements – such as disclosures relating to individual ratings, or advance notification to rated entities before ratings are issued – could be especially burdensome and, in some cases, operationally impractical.

Finally, investment managers' approaches to ESG integration have evolved rapidly in recent years and continue to develop. Our methodology has evolved alongside market practice to remain relevant and useful to clients. We are concerned that requirements to publish detailed methodological principles *publicly* could create unnecessary friction in the process of developing and improving our ESG ratings approach. In particular, they may reduce the flexibility needed to adapt our framework as industry practice develops, by making it harder to manage methodological change without undermining confidence in the ratings.

For these reasons, we encourage the FCA to consider whether the proposed regime should draw a clearer distinction between:

- ESG ratings intended to influence capital markets in relation to issuers of securities; and
- ESG assessments of investment management processes and investment funds.

A more proportionate approach for the latter category would help ensure that valuable analytical services remain available to market participants, while still supporting the FCA's broader objective of improving transparency and trust in ESG ratings.

In addition, we would suggest that the amount of information that has to be disclosed on ESG ratings is proportionate to the universe to which it applies. For example, we mentioned above our ESG rating of bulk annuity providers, a market in which there is currently around 10 providers. A lower level of disclosure here seems appropriate compared with the disclosure requirements that would apply for ESG ratings applied to possibly thousands of entities (eg listed companies).

Detailed responses to selected questions

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.

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.

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?

Yes.

We are regulated as an Authorised Professional Firm (APF) by the Institute and Faculty of Actuaries in its capacity as a DPB regulator. We believe that this regulatory regime as it currently exists sufficiently address the risks of harm to clients from the provision of ESG ratings within our advice, where that advice relates to ESG ratings for providers and products typically within a broader bespoke piece of work.

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.

For entities producing many thousands of ESG ratings which are refreshed on a very regular basis, the disclosures outlined seem broadly appropriate.

For a firm such as ours producing a relatively small number of ESG ratings which include a significant judgemental element, the disclosures appear excessive. A slimmed-down disclosure focusing on high-level principles would be preferable. Extensive disclosures would mean there is greater friction when evolving and improving our ESG ratings, as discussed in the Overview of our response section.

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.

No, there are no key disclosures missing from the list.

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.

As per our response to question 4, for a firm and ratings such as ours, the disclosures appear excessive. A slimmed-down disclosure focusing on high-level principles would be preferable; and in the case of more qualitative-based ratings, a high-level description is likely to be more valuable to users.

We can envisage situations where very well-resourced managers would wish to engage with us at length on our views and judgements in the ratings awarded to their funds. The proposals raise the risk that we, and other firms providing ESG ratings using a more qualitative approach, adopt a more formulaic method to address the resourcing issue this would create. We would see this as a loss of value and insight for our clients.

There is also always the danger with (full) transparency that some use the detailed information to game the system, learning how to tell us what they believe will result in better ratings for their firms and products.

We would also be concerned about the likelihood of our processes, procedures and other aspects of how we create our ESG ratings being shared with competitors, for example if our clients are allowed to share our additional disclosures with their other advisers. We are not familiar with the Trade Secrets Regulations referenced in the consultation so may need to familiarise ourselves with those if we believe it necessary to protect what we see as proprietary value-add aspects of our ESG ratings work.

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.

No, there are no key disclosures missing from the list.

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

No response.

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.

As we noted in our introduction, based on our current understanding, the compliance obligations associated with the ESG ratings regime that fall outside our existing regulatory regime would be substantial. As a result, we would need to consider carefully whether it would remain feasible to continue offering those services.

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

No comment on the general approach.

Question 11: Do you agree with the proposed approach to systems and controls, including: a. Quality control and methodology, b. Data quality and accuracy, c. Record keeping, d. Personal transactions. If not, please specify which elements you disagree with, what alternative approach you would suggest and why.

For Personal Transactions, we suggest the approach to the ESG rating of funds and dealing in those funds needs to be considered. There is far less chance of market abuse than in personal dealing on securities. Checking whether we have ESG rated a particular fund and feeding this into the assessment of a personal dealing request would add cost and additional compliance burden to our current process. Given the nature of our ESG fund rating process and its purpose, this would appear to add cost for very limited reduction in risk of market abuse or conflict of interest.

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?

We are concerned that the proposed regulations on changes to ESG ratings (paragraph 4.24) may make providers more reluctant to revise their approach, or less likely to do so frequently, which could slow the evolution of ESG rating methodologies.

In our own rating of funds and asset managers, the approaches used can at times change quite rapidly in response to information availability, regulations and client demands. Our rating approach has evolved over time, and we expect we will continue to update it substantially over time. We would suggest you remove the requirement to notify stakeholders in advance of a change or at least provide guidance on what the FCA means by “material”.

We also note that, in practice, a transition from one approach to another may not happen “in one go”. For example, it typically takes at least two months for us to contact a provider to request information on their ESG (and other investment) processes, review the information provided, meet with the provider to discuss their responses, formulate and document our views, and approve the resulting rating of their product. Therefore, there is a period of overlap where a new rating methodology is being used for some products whilst others are still being assessed under the old methodology.

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

No response.

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

No response.

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.

We provide ESG ratings on investment funds to our clients. In practice, we are really rating an asset manager's ESG service to that investment fund. As such, we would expect to define the rated entity as the fund but would engage with the investment manager.

We agree that it makes sense for it to be as easy as possible for information to be exchanged between ourselves and the investment managers whose funds we are rating. However, we don't think that the onus of pre-populating data from public sources (Table 4: Overview of proposed rules for stakeholder engagement, Data) should be on us as an ESG fund rater. The entities we are rating, investment managers, know much better than us where to source the information to allow us to carry out our rating of their fund(s).

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

We support the proposed approach in principle, as it relates to matters of fact.

As we noted though in response to question 6, we can envisage situations where very well-resourced managers would wish to engage with us at length on our views and judgements in the ratings awarded to their funds.

We would note that we do already aim to provide useful feedback to fund managers following our research on their funds (not only on our ESG assessment of them).

Question 17: Do you expect any significant challenges in implementing the proposed approach for stakeholder engagement or complaints? If so, please specify which elements and the nature of the challenges.

No response.

Question 18: Do you agree with our proposal to not extend the Financial Ombudsman's compulsory jurisdiction to enable complaints about providing an ESG rating to be considered by it? If not, please specify what you disagree with and why.

Yes.

Question 19: Do you agree with the Financial Ombudsman's proposal to not extend its voluntary jurisdiction to cover complaints about providing an ESG rating? If not, please explain why.

Yes.

Question 20: Do you agree with the proposal to not provide FSCS cover? If not, please explain why.

Yes.

Question 21: Do you agree with our approach of applying the standard (Core) SM&CR to ESG rating providers as it applies to most other FCA regulated firms? If not, what alternative approach would you propose?

We would like to question if there is any scenario when firms that are only authorised as ESG ratings providers could be considered limited scope SMCR firms? For example, in a similar way to benchmark firms.

Question 22: Does the proposed perimeter guidance provide sufficient support to help firms understand when FCA authorisation might be required? If not, what else should the guidance cover?

Yes

Question 23: Do you agree with our proposed application fee structure for ESG rating providers? If not, please explain why you disagree.

Yes.

Question 24: Do you agree that the threshold to define larger ESG rating providers should be a forecast annual revenue of £250,000 or more? If not, please explain why you disagree.

For a firm such as ours, where our ESG rating activity is typically part of a larger service to a client, it may be difficult to ascribe a particular value to a given rating activity, and a relatively broad-brush approach to assessing the revenue derived from this activity may be necessary.

Question 25: Do you agree with our proposed application of certain existing SUP rules and guidance to rating providers? If not, please specify what you disagree with and why.

Yes.

Question 26: Do you have any comments on our proposal to apply the same approach to enforcement investigations and actions to rating providers as we do to other regulated firms, as set out in ENFG? If yes, please specify.

No comments.

Question 27: Do you have any comments on our proposal to follow the same procedures for decision-making and imposing penalties in relation to rating providers and their personnel as set out in DEPP? If yes, please specify.

No comments.

Question 28: Do you have any additional comments on our proposed rules and guidance set out in this CP, including where we could take an alternative approach, or think there are any other topics we should consider? If yes, please specify.

As we have indicated in various responses to questions in this consultation, the FCA could consider exempting ESG ratings providers when they provide ESG fund-level ratings and ESG ratings of investment managers (where those fund ratings are not calculated by aggregating individual security-level assessments).

Consultants such as us are a step removed from the security-level ESG ratings that feed into decisions to transact on an individual underlying stock, as managers do. We are rating primarily the processes, policies and approaches of fund managers.

Many of the proposals appear to have been designed with the ESG rating of issuers of securities in mind only. The ESG rating of funds and investment managers of those funds have different risks associated with them; in our view, the proposed approach is not proportionate to address those risks. The costs of us complying with these regulations would be significant.

Question 29: We have aimed to make the proposed rules in Appendix 1 as clear and straightforward as possible. Are there any specific areas you found difficult to interpret or apply? If so, please identify the relevant rule(s) and explain the difficulty.

No.

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

No comments.

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