

Sustainability

MAS Encourages ESG Rating and Data Product Providers to Adopt Code of Conduct

Introduction

The finalised [Code of Conduct for ESG Rating and Data Product Providers](#) ("**Code**") and an accompanying [Checklist](#) for providers to self-attest their compliance to the Code ("**Checklist**") were published by the Monetary Authority of Singapore ("**MAS**") on 6 December 2023. The voluntary Code aims to set out baseline industry standards for transparency in methodologies and data sources, governance, and management of conflicts of interest that may compromise the reliability and independence of the products.

This Update gives you a snapshot of what to expect under this Code, along with our comments. This development follows an earlier public consultation conducted by MAS from June to August 2023, which we have earlier covered in our July 2023 Client Update on "[MAS Consults on Code of Conduct of ESG Rating and Data Product Providers](#)". MAS has also issued its Response to feedback received on the consultation paper, available at this [link](#) on the MAS website.

Scope and Applicability

The Code is applicable to ESG rating and data product providers (collectively, "**providers**") on a "Comply or Explain" basis. Providers must 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).

- "**ESG rating provider**" refers to any entity offering any ESG rating in Singapore or providing any ESG rating out of Singapore, that relates to activities and institutions in the securities and derivatives industry; but does not include an entity solely compiling or redistributing ESG ratings produced, whether by related or unrelated parties.
- "**ESG data product provider**" refers to any entity providing any ESG data product in Singapore to participants in the financial market or providing any ESG data product out of Singapore, as part of its business continuously and repeatedly, in relation to activities and institutions in the securities and derivatives industry. Exclusions are detailed in the Code.

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Key Principles and Practices

The Code sets out seven Principles, and each Principle is elaborated on with a set of best practices. These Principles are focused on several key aspects, namely:

- Issuance of high quality ESG rating and data products through sufficiency in expertise, technological capabilities, assessment processes, and data governance;
- Independence of providers by having in place conflict of interest policies, management systems, and proper disclosures;
- Transparency and adequacy in public disclosure of methodologies and data sources, while maintaining a balance with respect to proprietary or confidential information; and
- Efficient and effective interactions between providers and their data procurement targets, including transparency on data handling.

The Code is modelled closely after the International Organisation of Securities Commissions ("**IOSCO**") recommendations of good practices in the IOSCO's "Call for Action" paper with additional Singapore-specific requirements. Among other things, MAS has drawn references from the relevant provisions in the MAS Code of Conduct for Credit Rating Agencies and provides elaborations on specific best practices for the ESG rating provider in respect of their ESG ratings under the issuer-paid model. These specific best practices are also marked out in the Code.

Self-Attestation Checklist

The Checklist identifies: (i) the respective best practices in the Code that are aligned to IOSCO's recommended good practices; and (ii) the additional best practices that are tailored to Singapore. Providers can use the Checklist as a guidance of the progress of their adoption of the Code's best practices, as well as facilitate interoperability with codes of conduct in other jurisdictions by mapping their policies and procedures against IOSCO's recommended good practices and using it for cross-jurisdictional comparison of standards for their operations in other relevant jurisdictions.

MAS encourages providers to disclose their adoption of the Code and publish their completed Checklist within 12 months from publication of the Code. The list of such providers will be hosted on International Capital Market Association (ICMA)'s website.

Our Comments

This regulatory development reflects the need to provide better guardrails in the provision of ESG ratings and data products and to minimise asymmetries in their use and a significant step towards establishing a benchmark for quality and consistency ESG rating and data products. The upsurge in their adoption

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within financial, operational and commercial decisions or as a basis for novel products can manifest a network effect. Reliable and credible ESG information will thus not only boost confidence in their use, but also indirectly increase trust and their value throughout the market. By enhancing market credibility of ESG information, users will be able to expand the utility of ESG data beyond reporting requirements and into a pivotal factor in the decision-making process for deals, whether in terms of due diligence and post-deal integration.

At the same time, users of information have to remain prudent about limits on the utility of the information as well as be mindful of potential caveats, particularly where ESG-related claims are concerned.

To help you better navigate the nuances of this significant development, please contact our multi-disciplinary specialist teams at Rajah & Tann Singapore's [Sustainability Practice](#) who are well-poised to advise you on the adaptation of your business to take into account sustainability and ESG (environmental, social and governance) issues.

Contacts



Lee Weilin
Head, Sustainability
Partner, Banking & Finance

T +65 6232 0707

weilin.lee@rajahtann.com



Ng Sey Ming
Partner, Sustainability
Co-Head, Banking & Finance

T +65 6232 0473

sey.ming.ng@rajahtann.com



Cindy Quek
Partner, Sustainability
Banking & Finance

T +65 6232 0492

cindy.quek@rajahtann.com



Cynthia Wu
Partner, Sustainability
Mergers & Acquisitions

T +65 6232 0775

cynthia.wu@rajahtann.com

Our Sustainability Practice covers a full spectrum of ESG issues across a wide range of areas. Click [here](#) for our Partners in the Sustainability Practice.

Please feel free to also contact Knowledge Management at eOASIS@rajahtann.com

Regional Contacts

R&T SOK & HENG | *Cambodia*

R&T Sok & Heng Law Office

T +855 23 963 112 / 113

F +855 23 963 116

kh.rajahtannasia.com

RAJAH & TANN | *Myanmar*

Rajah & Tann Myanmar Company Limited

T +95 1 9345 343 / +95 1 9345 346

F +95 1 9345 348

mm.rajahtannasia.com

RAJAH & TANN 立杰上海

SHANGHAI REPRESENTATIVE OFFICE | *China*

Rajah & Tann Singapore LLP

Shanghai Representative Office

T +86 21 6120 8818

F +86 21 6120 8820

cn.rajahtannasia.com

GATMAYTAN YAP PATACSIL

GUTIERREZ & PROTACIO (C&G LAW) | *Philippines*

Gatmaytan Yap Patacsil Gutierrez & Protacio (C&G Law)

T +632 8894 0377 to 79 / +632 8894 4931 to 32

F +632 8552 1977 to 78

www.cagatlaw.com

ASSEGAF HAMZAH & PARTNERS | *Indonesia*

Assegaf Hamzah & Partners

Jakarta Office

T +62 21 2555 7800

F +62 21 2555 7899

Surabaya Office

T +62 31 5116 4550

F +62 31 5116 4560

www.ahp.co.id

RAJAH & TANN | *Singapore*

Rajah & Tann Singapore LLP

T +65 6535 3600

sg.rajahtannasia.com

RAJAH & TANN | *Thailand*

R&T Asia (Thailand) Limited

T +66 2 656 1991

F +66 2 656 0833

th.rajahtannasia.com

RAJAH & TANN | *Lao PDR*

Rajah & Tann (Laos) Co., Ltd.

T +856 21 454 239

F +856 21 285 261

la.rajahtannasia.com

RAJAH & TANN LCT LAWYERS | *Vietnam*

Rajah & Tann LCT Lawyers

Ho Chi Minh City Office

T +84 28 3821 2382 / +84 28 3821 2673

F +84 28 3520 8206

CHRISTOPHER & LEE ONG | *Malaysia*

Christopher & Lee Ong

T +60 3 2273 1919

F +60 3 2273 8310

www.christopherleeong.com

Hanoi Office

T +84 24 3267 6127

F +84 24 3267 6128

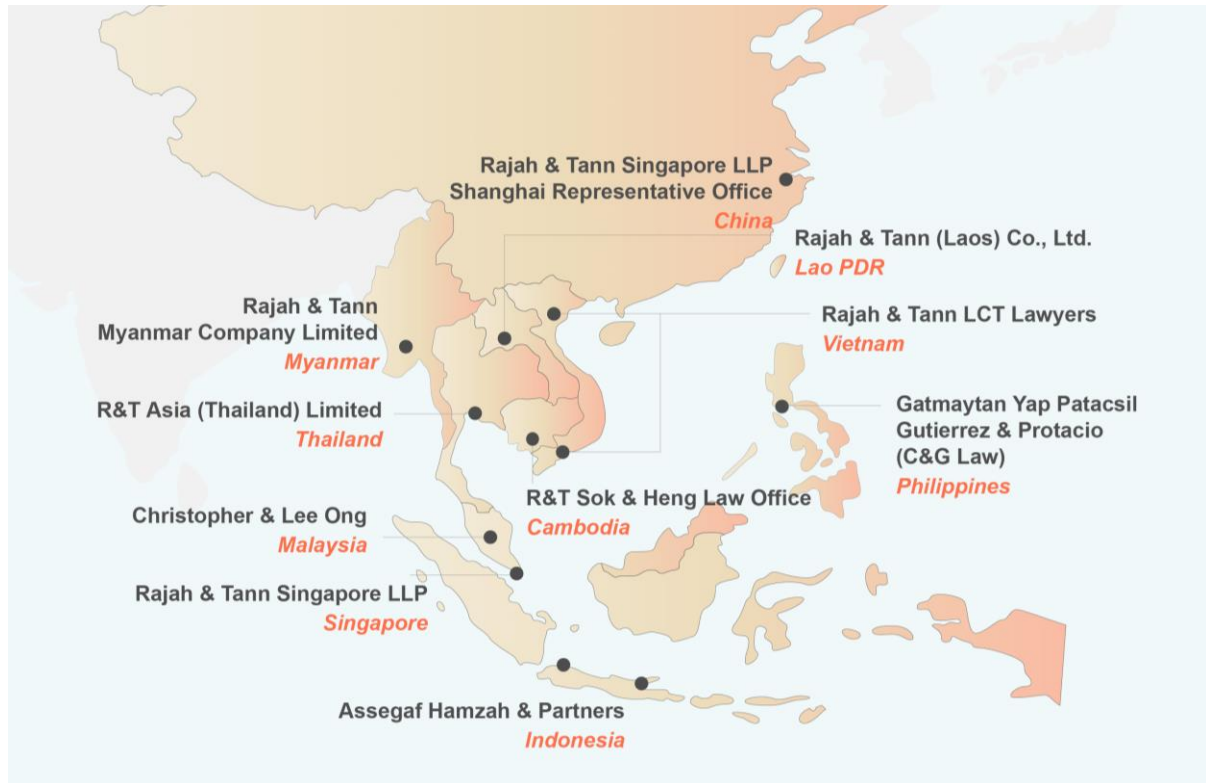
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