

The Hong Kong Environmental, Social and Governance (ESG) Ratings and Data Products Providers Voluntary Code of Conduct Working Group (VCWG)

Terms of Reference

A. Objectives

1. VCWG is tasked to develop and promote a globally consistent, interoperable and proportionate voluntary code of conduct for ESG ratings and data products providers which provide products and services in Hong Kong (the providers referred to as **ESG service providers** and the voluntary code of conduct referred to as **VCoC**).
2. The VCoC will set out baseline best practices governing the conduct of ESG service providers based on the International Organization of Securities Commissions' (**IOSCO**) recommendations¹, which cover the following four key elements:
 - (i) **transparency** (eg, disclosure of the source of data and underlying methodologies used);
 - (ii) **governance**;
 - (iii) **systems and controls** (eg, ensuring the issuance of high-quality products, protect all non-public information received); and
 - (iv) **management of conflicts of interest**.
3. As ESG service providers will be encouraged to adopt the VCoC going forward, it is envisaged that the VCoC will enhance the communication between the providers and the entities that are the subject of ESG ratings and data products/services (ie, covered entities), and strengthen the transparency, quality and reliability of products available to end users.

B. Expected deliverables

1. To achieve the above objectives, the VCWG is expected to deliver the following:
 - a) **Develop a VCoC**. In doing so, the VCWG should:
 - (i) ensure that the VCoC sets out clear, comprehensive and proportionate conduct requirements for ESG service providers, while taking into account the needs of key stakeholders such as the covered entities and the users of ESG ratings and data products/services;
 - (ii) consider relevant international regulatory initiatives, and develop a VCoC that can be interoperable, to the extent possible, with the relevant expectations set out in other major jurisdictions;

¹ The recommendations are derived from the [IOSCO final report titled "Environmental, Social and Governance \(ESG\) Ratings and Data Products Providers" dated November 2021](#).

- (iii) where relevant, promote market convergence towards well-understood and recognized definitions;
 - (iv) consider any need to include local specific expectation(s) in the VCoC with clear labeling for easy identification by the users and readers;
 - (v) ensure that the VCoC will be complemented by a self-attestation document. ESG service providers should be encouraged to complete and publish (eg, on their website) the self-attestation in order to foster greater transparency among ESG service providers, which should further facilitate the due diligence process of their clients;
 - (vi) when designing the self-attestation document, consider, to the extent possible, how the ESG service providers can make reference to their adoption of the relevant regulatory requirements of other jurisdiction(s) in the self-attestation to satisfy the equivalent expectation(s) in the VCoC.
- b) Consider how to establish a mechanism for ongoing maintenance of a signatory list of ESG service providers which endorse and adhere to the VCoC after it comes into effect.**
- c) Determine the ownership of the VCoC (ie, how the VCoC should be hosted and maintained) before its final version is published.**
- d) Put in place a process so that the VCoC can be periodically reviewed to continue to reflect best practices and address concerns raised by market participants.**

C. Roles and responsibilities

The SFC will be the sponsor of the initiative, while the International Capital Market Association will act as the Secretariat to convene and lead the VCWG.

1. Members

Members will be expected to consistently participate in and contribute to the discussion and drafting of the VCoC. The Secretariat will guide the agenda, meetings and aim of the VCWG, help find a consensus where necessary, and help the VCWG achieve the objectives and produce the expected deliverables by the indicative timeline below. The VCWG will be bound by the ICMA Competition Law Guidelines.

2. Observers

The observers of the VCWG will not submit formal views but may participate in discussions during working group meetings to assist the VCWG in achieving the objectives stated above.

3. Sponsor

Throughout the process of developing the VCoC, the sponsor may consider providing appropriate guidance to the Secretariat in order to ensure the objectives can be achieved in a timely manner.

D. Indicative timeline

The VCWG should target to commence the first meeting in November 2023, and aim to have the Secretariat issue a draft of the VCoC for public consultation approximately three months after the first meeting, ie, in the first quarter of 2024. The VCWG should consider responses to and comments on the public consultation and prepare a final version of the VCoC for publication approximately one month after the end of the public consultation.

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