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The Comparability Problem in Sustainability Ratings

Divergence, bias and the bifurcation of India's rating system, with evidence to November 2026

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Abstract

Sustainability ratings guide the allocation of trillions of dollars, yet providers disagree far more than credit rating agencies do. This paper synthesises the evidence on why, and examines the consequences for emerging markets through the case of India. Correcting a common misreading of the literature, it shows that measurement accounts for 56 per cent of divergence, scope 38 per cent and weight 6 per cent, and that greater corporate disclosure tends to increase rather than reduce disagreement.

The paper distinguishes divergence, where raters disagree with one another, from bias, where they agree on a systematically mis calibrated level, and from coverage gaps that underlie both. The three problems require different remedies, and methodology disclosure, the remedy most often proposed, addresses only the first. Evidence that ratings favour larger, better-resourced firms suggests that size bias can operate as a geographic bias against emerging market issuers.

India has gone further than most jurisdictions in responding. It mandated standardised disclosure, introduced assurance of core indicators, and in July 2023 brought rating providers under statutory registration, linking a regulated rating category to assured national data. Several global providers withdrew rather than register, and India's large listed companies are now rated in two separate systems that cannot be readily compared. With the EU regime applying from July 2026 and the UK regime from 2028, the central policy question has shifted from transparency to interoperability. The paper sets out eight recommendations addressed to regulators, index administrators, asset managers and issuers.

Keywords: Sustainability ratings, rating divergence, rating bias, emerging markets, India, SEBI, BRSR Core, ESG Ratings Regulation, interoperability.

JEL classification: G14, G18, G24, M14, Q56.

Key findings

- **Measurement drives divergence.** Measurement accounts for 56 per cent of rating divergence, scope 38 per cent and weight 6 per cent; correlations between major providers range from 0.38 to 0.71, against 0.99 for credit ratings.
- **More disclosure has not meant less disagreement.** Mandatory disclosure reforms have been followed by greater rating disagreement where definitions of good performance remain loose.
- **Divergence, bias and coverage are distinct problems.** Methodology disclosure addresses divergence; bias requires calibration testing, and coverage gaps require assured core data.
- **India leads on regulation.** SEBI has registered 19 rating providers and links a Core ESG Rating to assured BRSR Core data, three years before the EU regime applied.
- **India's rating system has bifurcated.** Sustainalytics and S&P Global withdrew rather than register, and LSEG no longer distributes scores in India. Interoperability with the EU and UK regimes is now the priority.

Contents

1. Introduction 4
2. Data and Method 4
3. What the Evidence Shows About Divergence 5
3.1 Magnitude 5
3.2 Sources: measurement before scope 5
3.3 The disclosure paradox 6
3.4 Consequences 6
4. Divergence and Bias: Two Problems, Two Remedies 7
5. Why Emerging Markets Are Exposed 8
5.1 Design context 8
5.2 Disclosure architecture 8
5.3 Coverage and default scores 8
5.4 Ownership and governance 8
5.5 Transition trajectory 8
6. India: From Divergence to Bifurcation 9
6.1 Disclosure infrastructure 9
6.2 The rating provider regime 9
6.3 The market response 10
6.4 Bifurcation 10
7. The Global Regulatory Landscape in 2026 11
8. Investment Consequences 12
8.1 Portfolio construction and indices 12
8.2 Cost of capital 13
8.3 Correlated error 13
9. Recommendations 13
10. Conclusion 14
References 14
About the Author 16
About SCRF 16

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1. Introduction

Sustainability ratings have become part of the infrastructure of capital markets. They inform index construction, portfolio screening, stewardship priorities, fund labelling and the pricing of sustainability-linked instruments. The Global Sustainable Investment Alliance recorded USD 30.3 trillion in sustainable investment assets in its 2022 review.[1] The ratings that guide this capital, however, disagree far more than credit ratings do. In the most comprehensive study to date, pairwise correlations among six major providers ranged from 0.38 to 0.71,[2] while the credit ratings of the two largest agencies correlate at 0.99.[3]

The disagreement matters most where capital is most needed. Emerging economies are making long-lived decisions on energy, industry and infrastructure, and the rating methodologies that shape their access to sustainability-oriented capital were developed for different disclosure regimes, governance norms and development baselines. India illustrates both the problem and an unusual response. Its nominal GDP ranks sixth in 2026 and is projected to rank fourth in 2027,[4] its securities regulator mandated standardised sustainability reporting in 2021, and in 2023 it became one of the first jurisdictions to bring sustainability rating providers under statutory registration.

This paper makes four contributions. First, it restates the evidence on why ratings diverge, correcting a common misreading: measurement, more than scope, drives disagreement. Second, it distinguishes divergence (raters disagreeing with one another) from bias (raters agreeing on a systematically wrong level). The two problems call for different remedies and are frequently conflated in policy debate. Third, it documents a development the literature has yet to absorb: following SEBI's registration regime, several global providers withdrew their ratings of Indian companies, so that India's large listed firms are now assessed in two separate rating systems. The comparability problem in India has become a problem of comparability across regulatory regimes. Fourth, it sets this against the global convergence of regulation in 2026 and proposes reforms suited to that environment.

Section 2 sets out data and method. Section 3 reviews the evidence on divergence and Section 4 separates divergence from bias. Section 5 explains why emerging markets are exposed. Section 6 examines India, Section 7 the international regulatory landscape and Section 8 the investment consequences. Section 9 offers recommendations and Section 10 concludes.

2. Data and Method

The paper is an evidence synthesis and regulatory analysis. It draws on peer-reviewed studies of rating divergence, primary regulatory instruments from India, the European Union, the United

[1] Global Sustainable Investment Alliance, *Global Sustainable Investment Review 2022* (November 2023): USD 30.3 trillion, down from USD 35.3 trillion in 2020 following a change in United States methodology.

[2] F. Berg, J. F. Kölbel and R. Rigobon, 'Aggregate confusion: The divergence of ESG ratings', *Review of Finance* 26, no. 6 (2022): 1315–1344. The study covers six providers: KLD, Sustainalytics, Moody's ESG (Vigeo-Eiris), S&P Global (RobecoSAM), Refinitiv (Asset4) and MSCI, and 709 underlying indicators.

[3] Berg, Kölbel and Rigobon (2022), op. cit., contrasting rating divergence with credit ratings, which they report as correlated at 0.99.

[4] IMF, *World Economic Outlook* and *Regional Economic Outlook: Asia and Pacific* (October 2026), as reported by Asia News Network (16 October 2026): India's nominal GDP of USD 4.06 trillion ranks sixth in 2026 and is projected at USD 4.52 trillion, fourth, in 2027.

Kingdom, Japan and Singapore, provider disclosures and official statistics, with a cut-off of 14 November 2026. Where a primary document was not publicly accessible, specialist legal or financial press is used and identified as such in the notes.

Two limitations apply. Firm-level ratings from commercial providers are proprietary, and since 2024 several global providers have ceased to publish ratings of Indian companies within India, so the paper does not construct a new cross-provider dataset for Indian firms. It relies instead on published studies that include Indian samples and on the regulatory record. Secondly, the paper uses the term 'sustainability ratings' throughout; statutory names, such as SEBI's 'ESG Rating Providers' (ERPs) and the EU's ESG Ratings Regulation, are retained where they refer to specific legal instruments.

3. What the Evidence Shows About Divergence

3.1 Magnitude

Early work established that ratings of the same firms do not converge, and that raters differ both in how they define corporate social performance and in how they measure it.[5] Berg, Kölbel and Rigobon quantified the problem using six providers and 709 underlying indicators, finding pairwise correlations between 0.38 and 0.71.[6] A correlation of this order means that a portfolio screened on one provider's ratings can differ materially from one screened on another's, even when both claim to select the most sustainable firms.

3.2 Sources: measurement before scope

The same study decomposed divergence into three sources. Scope divergence arises when raters assess different sets of attributes; measurement divergence, when they use different indicators for the same attribute; and weight divergence, when they assign different importance to attributes. Measurement contributes 56 per cent of divergence, scope 38 per cent and weight 6 per cent.[7] The authors also identify a rater effect: a firm that one rater scores highly in one category tends to receive high scores across all categories from that rater.[8] Part of measurement divergence therefore reflects the rater's overall view of the firm rather than independent assessment of each attribute.

The finding matters for policy. If scope were dominant, disagreement would reflect legitimate differences in what investors value, and transparency alone would suffice. Because measurement is dominant, much of the disagreement concerns how the same attribute is quantified. That is a data and methodology problem, open to regulatory and market remedies.

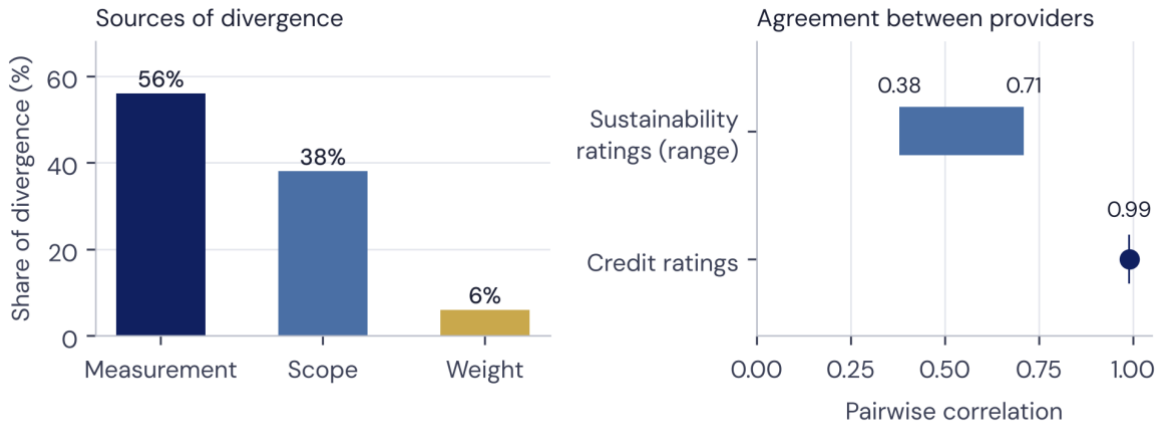
[5] A. K. Chatterji, R. Durand, D. I. Levine and S. Touboul, 'Do ratings of firms converge? Implications for managers, investors and strategy researchers', *Strategic Management Journal* 37, no. 8 (2016): 1597–1614.

[6] Berg, Kölbel and Rigobon (2022), op. cit.

[7] Berg, Kölbel and Rigobon (2022), op. cit.: measurement contributes 56 per cent of divergence, scope 38 per cent and weight 6 per cent.

[8] Berg, Kölbel and Rigobon (2022), op. cit., on the 'rater effect', under which a firm scored highly in one category is more likely to be scored highly in all others.

Figure 1. Sources of rating divergence and the comparison with credit ratings



Source: Berg, Kölbel and Rigobon (2022). Left panel: share of divergence by source. Right panel: range of pairwise correlations among six sustainability rating providers, compared with the correlation of credit ratings reported in the same study.

3.3 The disclosure paradox

A widely held assumption is that better corporate disclosure will reduce disagreement. The evidence points the other way. Using data from 69 countries and a difference-in-differences design around mandatory disclosure reforms, Christensen, Serafeim and Sikochi find that greater disclosure is associated with greater rating disagreement, and that disagreement is larger for outcome metrics than for policy inputs.[9] More disclosure supplies more information requiring judgement, and raters exercise that judgement differently. Disclosure mandates such as India's are valuable for accountability, but on this evidence they will reduce divergence only when paired with common definitions of what constitutes good performance.

3.4 Consequences

Divergence carries measurable costs. An interquartile-range increase in disagreement is associated with an increase of 132 basis points in the annual cost of equity.[10] Greater disagreement is also associated with higher return volatility and a lower likelihood of raising external finance.[11] Evidence from China, the largest emerging market with multiple active raters, shows that divergence increases stock return synchronicity, reducing the amount of firm-specific information reflected in prices, with stronger effects for firms with sparse disclosure and limited analyst coverage.[12]

[9] D. M. Christensen, G. Serafeim and A. Sikochi, 'Why is corporate virtue in the eye of the beholder? The case of ESG ratings', *The Accounting Review* 97, no. 1 (2022): 147–175. The results hold with firm fixed effects and a difference-in-differences design around mandatory disclosure shocks; disagreement is greater for outcome metrics than for policy inputs.

[10] R. Gibson Brandon, P. Krueger and P. S. Schmidt, 'ESG rating disagreement and stock returns', *Financial Analysts Journal* 77, no. 4 (2021): 104–127, as summarised in Advisor Perspectives (10 October 2022): an interquartile-range increase in disagreement is associated with a 132 basis point increase in the annual cost of equity.

[11] Christensen, Serafeim and Sikochi (2022), op. cit., finding that greater disagreement is associated with higher return volatility, larger absolute price movements and a lower likelihood of raising external financing.

[12] J. Li, X. Ren, N. Yang and Z. Xu, 'ESG ratings inconsistency and its effects on information in capital market', *China Accounting and Finance Review* 28, no. 1 (2026): 117–140, using 22,384 firm-year observations for 4,343 Chinese listed firms, 2010–2022.

4. Divergence and Bias: Two Problems, Two Remedies

Policy discussion of ratings in emerging markets often runs together two distinct claims. The first is that raters disagree about emerging market firms. The second is that raters, taken together, assess emerging market firms too harshly. The first is a problem of divergence, the second a problem of bias, and a third, coverage, often underlies both. Table 1 sets out the distinction.

Table 1. Divergence, bias and coverage

Problem	Definition	Evidence	Primary remedy
Divergence	Raters disagree about the same firm	Correlations of 0.38 to 0.71; measurement explains 56% (Berg et al. 2022)	Methodology disclosure; common indicator definitions
Bias	Raters agree on a level that is systematically wrong for a class of firms	Size bias favouring large firms persists across database generations (Drempetic et al. 2020; Dobrick et al. 2023)	Calibration testing against outcomes; context-specific benchmarks
Coverage	Thin analyst coverage leads to reliance on estimates and sector defaults	Effects of divergence strongest for firms with sparse disclosure and few analysts (Li et al. 2026)	Coverage disclosure by market and size band; assured core data

The distinction has practical force. Methodology disclosure, the remedy most often proposed, addresses divergence. It does little for bias, since a transparent method can still be mis calibrated for a given market, and it does nothing for coverage. Bias is better addressed by testing ratings against observed outcomes and by benchmarks calibrated to the relevant context; coverage gaps by assured core data and disclosure of how often ratings rest on estimates.

The evidence on bias is strongest for firm size. Ratings systematically favour larger firms with more resources for producing sustainability data,[13] and the bias persisted after the provider concerned revised its methodology.[14] For emerging markets, where listed firms are on average smaller and less resourced for disclosure than their developed-market peers, a size bias can operate as a geographic bias without any explicit regional weighting.

The evidence on divergence for India's largest firms is more nuanced than often assumed. A 2025 study comparing three providers' scores for the 50 largest listed companies in the United States, China, Japan, Germany and India placed Japan and India in a low-divergence cluster, and the United States, China and Germany in a high-divergence cluster. Dispersion within individual providers nonetheless remained wide, reaching 18 points for one provider's Indian scores.[15] For India's largest companies, unusually high cross-provider disagreement is not the core problem. Calibration,

[13] S. Drempetic, C. Klein and B. Zwergel, 'The influence of firm size on the ESG score: Corporate sustainability ratings under review', *Journal of Business Ethics* 167, no. 2 (2020): 333–360.

[14] J. Dobrick, C. Klein and B. Zwergel, 'Size bias in Refinitiv ESG data', *Finance Research Letters* (2023), finding that the size bias persists in the successor database despite methodological changes.

[15] B. Lukács and P. Molnár, 'Companies' ESG performance under soft and hard regulation environment', *Discover Sustainability* (2025), doi:10.1007/s43621-025-01657-0, comparing Sustainalytics, S&P Global and Refinitiv scores for the 50 largest listed companies in the United States, China, Japan, Germany and India; summarised by Mirova Research Center.

coverage beyond the largest firms and, since 2024, the separation of rating systems are the more pressing concerns.

5. Why Emerging Markets Are Exposed

5.1 Design context

The dominant methodologies were developed in North America and Europe for investors whose reference markets are the United States and Western Europe. They encode assumptions about the regulatory baseline, disclosure infrastructure and governance arrangements of a typical firm. Where those assumptions differ, ratings become harder to interpret, and sector-relative scoring can compare a firm with a peer group dominated by companies operating under quite different conditions.

5.2 Disclosure architecture

India's Business Responsibility and Sustainability Report (BRSR), mandatory for the 1,000 largest listed companies by market capitalisation from 2022–23, follows the nine principles of the National Guidelines on Responsible Business Conduct.[16] Global providers typically map disclosures to indicator sets aligned with GRI, TCFD and the ISSB standards. A firm that complies fully with BRSR has therefore disclosed a substantial body of information in a structure that global methodologies must translate. Translation introduces discretion, and discretion is the channel through which measurement divergence enters.[17]

5.3 Coverage and default scores

Providers allocate analyst capacity according to client demand. Where coverage is thin, ratings rely more heavily on modelled estimates and sector defaults. Because global sector averages are dominated by developed-market constituents, a default score imports their characteristics into the assessment of an emerging market firm. The resulting rating partly describes the global peer group rather than the firm itself.

5.4 Ownership and governance

Promoter-controlled companies and state-owned enterprises account for a large share of India's listed market. Governance assessments calibrated to dispersed Anglo-American ownership may penalise concentrated ownership as such. The argument should not be overstated. India's own governance code is closely aligned with international practice: listed companies must have at least one-third independent directors, rising to one-half where the chair is an executive or linked to the promoter.[18] Related-party transactions and minority-shareholder protection are real risks in concentrated ownership structures, and ratings that capture them are doing their job. The

[16] SEBI, 'Business Responsibility and Sustainability Reporting by listed entities', Circular SEBI/HO/CFD/CMD-2/P/CIR/2021/562 (10 May 2021).

[17] S. Kotsantonis and G. Serafeim, 'Four things no one will tell you about ESG data', *Journal of Applied Corporate Finance* 31, no. 2 (2019): 50–58.

[18] Companies Act, 2013, section 149(4); SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, regulation 17(1)(b), requiring at least one-third independent directors, rising to one-half where the chair is an executive or linked to the promoter.

analytical task is to separate legitimate assessment of those risks from penalties that attach to ownership structure itself.

5.5 Transition trajectory

Static scoring against absolute thresholds treats a firm that has cut emissions intensity substantially from a high base less favourably than one that has remained at a lower level without improvement. In economies investing heavily from a lower development baseline, the direction and rate of change carry information that level-based scores omit. SEBI's framework recognises this by providing for a separate Transition Score alongside the ESG Rating.[19]

Table 2. Sources of divergence and emerging market amplifiers

Source	Mechanism	Emerging market amplifier
Measurement (56%)	Different indicators and data treatments for the same attribute	Translation of national disclosure formats; greater reliance on estimates
Scope (38%)	Different sets of attributes assessed	Issue sets calibrated to developed-market priorities
Weight (6%)	Different importance assigned to attributes	Weights reflecting the regulatory priorities of providers' home markets
Coverage	Different analyst capacity by market and firm size	Thinner coverage and sector defaults dominated by developed-market peers

6. India: From Divergence to Bifurcation

6.1 Disclosure infrastructure

India has built one of the most extensive mandatory sustainability disclosure systems among emerging economies. BRSR became mandatory for the 1,000 largest listed companies from 2022–23.[20] In July 2023 SEBI introduced BRSR Core, a subset of key indicators subject to independent assessment or assurance on a glide path that reaches the top 1,000 companies in 2026–27 (Figure 2).[21] Voluntary adoption has outpaced the mandate, with more than 1,200 companies publishing a BRSR.[22]

6.2 The rating provider regime

SEBI brought sustainability rating providers within the scope of the Credit Rating Agencies Regulations with effect from 4 July 2023.[23] The regime has three distinctive features. It applies a functional definition, so that any product offering an opinion on a firm's sustainability profile falls

[19]SEBI, Master Circular for ESG Rating Providers, SEBI/HO/DDHS/DDHS-POD-2/P/CIR/2025/100 (11 July 2025), consolidating earlier circulars and defining the permitted rating types, including the ESG Rating, Transition Score and Core ESG Rating.

[20]SEBI, 'Business Responsibility and Sustainability Reporting by listed entities', Circular SEBI/HO/CFD/CMD-2/P/CIR/2021/562 (10 May 2021).

[21]SEBI, 'BRSR Core: Framework for assurance and ESG disclosures for value chain', circular of 12 July 2023, as amended in March 2025 to permit assessment or assurance; glide path as summarised in GreenSutra, 'BRSR in 2026' (13 June 2026).

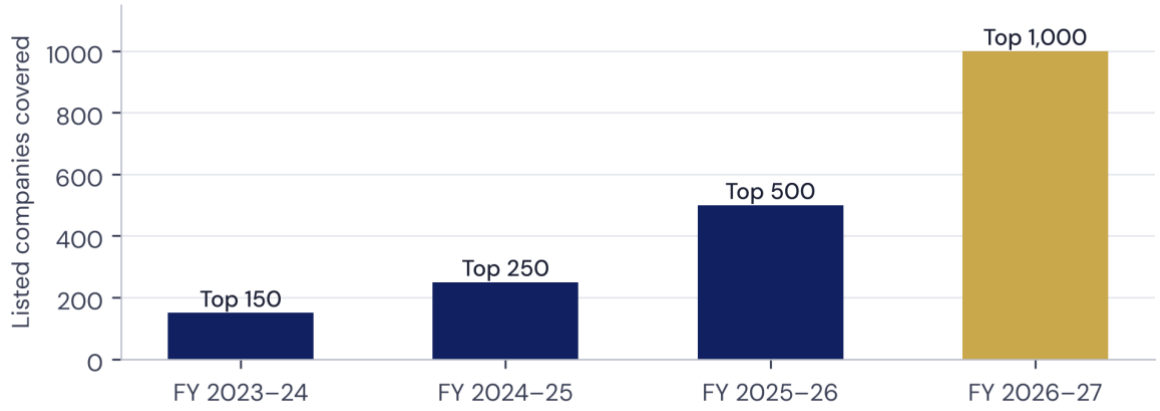
[22]GreenSutra, 'BRSR in 2026' (13 June 2026), reporting that more than 1,200 companies publish a BRSR against roughly 1,000 required.

[23]SEBI (Credit Rating Agencies) (Amendment) Regulations, 2023, inserting a chapter on ESG Rating Providers into the SEBI (Credit Rating Agencies) Regulations, 1999, effective 4 July 2023.

within scope regardless of its label, and it requires providers located outside India to register before rating Indian securities for users in India.[24] It anchors a distinct Core ESG Rating to assured BRSR Core data, linking ratings to a verified national dataset. And it provides for separate rating types, including a Transition Score, consolidated in a Master Circular of 11 July 2025.[25]

The first provider was registered on 25 April 2024,[26] and 19 providers were registered by August 2026.[27] SEBI issued norms on rating withdrawal in 2025.[28] In February 2026 it constituted a working group of issuers, investors, domestic and global providers, analysts, lawyers and academics to review the framework, with a mandate that includes alignment with international practice while considering the Indian market context.[29]

Figure 2. BRSR Core assessment or assurance: number of listed companies covered



Sources: SEBI BRSR Core circular (12 July 2023), as amended in March 2025; GreenSutra (13 June 2026). Companies ranked by market capitalisation.

6.3 The market response

Global providers responded in different ways. Eleven firms, including MSCI and the London Stock Exchange Group, applied for registration in 2024.[30] Sustainalytics and S&P Global instead withdrew their ratings of Indian companies within scope, while MSCI remained.[31] LSEG states that it no longer distributes sustainability scores and ratings to users in India and is not pursuing a licence.[32]

[24] Mondaq, 'Setting the benchmark: India's first-of-its-kind legislation on ESG rating providers' (2023), on the functional definition of ESG ratings and the requirement that providers located outside India register before rating Indian securities for users in India.

[25] SEBI Master Circular for ESG Rating Providers (11 July 2025), op. cit.

[26] GreenSutra, 'ESG in 2026, explained' (2026): the first ESG Rating Provider received Category I registration on 25 April 2024.

[27] Statement of the Union Finance Minister to Parliament, as reported by NewKerala (3 August 2026): 19 ESG Rating Providers registered with SEBI.

[28] SEBI, circular on the withdrawal of ESG ratings (2025), as reported by ESG Post, permitting withdrawal where a rated company does not file a BRSR or a rating has no subscribers.

[29] SEBI, Press Release No. 13/2026, 'SEBI constitutes Working Group to review ESG Rating Providers (ERPs) regulatory framework' (Mumbai, 18 February 2026).

[30] *Mint* (12 April 2024) and Board Stewardship (2024): eleven applicants for ERP registration, including MSCI and the London Stock Exchange Group.

[31] *Responsible Investor*, 'S&P to withdraw ESG ratings from India after regulatory review' (2024), reporting that S&P Global joined Sustainalytics in exiting while MSCI remained; and 'Third global data giant pulls ESG ratings from India' (19 August 2024).

[32] London Stock Exchange Group, 'Sustainability ratings and data', web notice accessed 15 November 2026: LSEG no longer distributes ESG scores and ratings to customers and users in India and is not currently pursuing a licence application.

6.4 Bifurcation

The result is a two-track system. Within India, registered domestic providers rate Indian companies under SEBI supervision, with methodologies required to reflect the Indian context and a core rating tied to assured national data. Outside India, global providers continue to produce assessments of Indian companies for international investors, under different methodologies and, from July 2026, under the EU's separate supervisory regime. The same company may therefore carry ratings in two systems that are each internally regulated but not designed to be compared.

This alters the nature of the comparability problem. Before 2023, the concern was that globally designed ratings were applied to Indian firms with poor calibration. The concern now is that domestic and international investors rely on rating systems built on different data, definitions and supervisory standards, with no mechanism for reconciliation. Domestic ratings have also yet to show meaningful influence on the cost of capital.[33] SEBI's working group provides a timely opportunity to address both issues.

7. The Global Regulatory Landscape in 2026

Regulation of sustainability ratings has moved from voluntary codes to statutory supervision in five years (Figure 3). IOSCO set out recommendations on methodology transparency, governance and conflicts of interest in November 2021.[34] Japan's Financial Services Agency issued the first national code of conduct in December 2022, applied on a comply-or-explain basis.[35] Singapore followed with a code in December 2023.[36] India's registration regime took effect in July 2023.[37]

Figure 3. Regulation of sustainability rating providers, 2021 to 2028



Sources: IOSCO (2021); FSA Japan (2022); SEBI (2023, 2025, 2026); MAS (2023); Regulation (EU) 2024/3005; FCA PS26/22 (2026). Filled markers denote binding regimes; open markers denote voluntary codes.

[33] Moore Singhi, *SEBI's ESG Ratings Review: Will It Transform from Compliance Tool to Capital Signal?* (2026), observing that ratings have not yet translated meaningfully into cost-of-capital differentiation.

[34] IOSCO, *Environmental, Social and Governance (ESG) Ratings and Data Products Providers: Final Report*, FR09/2021 (November 2021).

[35] Financial Services Agency, Japan, *The Code of Conduct for ESG Evaluation and Data Providers* (15 December 2022), applied on a comply-or-explain basis; 28 providers had endorsed it by 30 June 2025.

[36] Monetary Authority of Singapore, Code of Conduct for ESG Rating and Data Product Providers (6 December 2023), as summarised by Hogan Lovells.

[37] SEBI (Credit Rating Agencies) (Amendment) Regulations, 2023, op. cit.

The European Union's ESG Ratings Regulation has applied since 2 July 2026. Providers operating in the Union must be authorised by ESMA, publish their methodologies, manage conflicts of interest and meet governance standards; existing providers had to apply for authorisation or recognition by 2 November 2026.[38] Delegated regulations specify the elements of methodologies to be disclosed and the separation of rating activities from other business.[39] Ratings may not be issued from the same legal entity that provides credit ratings, audit or consulting.[40] The United Kingdom finalised its rules in November 2026, with authorisation opening in June 2027 and the regime applying from 29 June 2028.[41]

Table 3. Regulatory regimes for sustainability rating providers, November 2026

Feature	India	European Union	United Kingdom	Japan and Singapore
Instrument	CRA Regulations chapter; Master Circular (2025)	Regulation (EU) 2024/3005	ESG Ratings Order 2025; FCA rules (PS26/22)	Voluntary codes (2022, 2023)
Status	In force since July 2023	Applies from 2 July 2026	Applies from 29 June 2028	Comply or explain
Authorisation	Registration with SEBI, including offshore providers serving Indian users	ESMA authorisation; recognition or endorsement for non-EU providers	FCA authorisation	Voluntary endorsement
Methodology disclosure	Required	Required, specified by delegated regulation	Required	Expected
Link to national data	Core ESG Rating based on assured BRSR Core	None specified	None specified	None specified
Transition assessment	Separate Transition Score	Disclosure of E, S and G weighting where a single rating is given	Not specified	Not specified

Three conclusions follow. First, the recommendation that methodology disclosure be made mandatory, still common in the literature, has largely been implemented in the jurisdictions that matter most. Secondly, India is the only major regime that ties a regulated rating category to an assured national dataset, which places it ahead of other jurisdictions on the problem of measurement divergence. Thirdly, the regimes have been designed nationally, with no mechanism for mutual recognition between India and the EU or the UK. The bifurcation observed in India is likely to recur wherever national regimes diverge, and interoperability is now the central policy question.[42]

[38] Regulation (EU) 2024/3005 of 27 November 2024 on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities, in force 1 January 2025 and applicable from 2 July 2026; ESMA, public statement ESMA84-1427279869-1396 (July 2026).

[39] Commission Delegated Regulations (EU) 2026/871 (disclosure of methodologies, models and key rating assumptions) and (EU) 2026/872 (separation of rating activities from other activities), as recorded by Arendt (update of 28 July 2026).

[40] KPMG, 'Transparency and integrity in ESG ratings' (November 2025): ESG ratings may not be issued from the same legal entity that provides credit ratings, audit or consulting.

[41] Financial Services and Markets Act 2000 (Regulated Activities) (ESG Ratings) Order 2025, laid on 27 October 2025; FCA, CP25/34 (1 December 2025) and PS26/22 (3 November 2026), as summarised by Linklaters: authorisation gateway from June 2027 and full regime from 29 June 2028.

[42] ICMA, *The Evolving Landscape of ESG Ratings and Data Products* (March 2026).

8. Investment Consequences

8.1 Portfolio construction and indices

For active managers, divergence means that sustainability screens produce materially different portfolios depending on the provider used. For passive products, the choice of provider by an index administrator determines index membership, and the capital flows that follow. In India the choice now also determines which rating system is being applied, since an international index may rely on a provider that no longer publishes ratings of Indian companies within India.

8.2 Cost of capital

Disagreement raises the cost of equity.[43] Emerging market firms already bear premiums for political, currency and information risk. Where ratings are more uncertain, or systematically lower because of size or coverage effects, a further premium can arise that does not reflect underlying performance. The effect falls hardest on investors with formal sustainability constraints, whose allocation decisions depend most directly on ratings.

8.3 Correlated error

Divergence and bias interact in a specific way. Where providers respond to the same data constraints in similar ways, for example by applying similar defaults to firms with limited coverage, their errors are correlated and cannot be diversified by using several providers. Averaging across raters reduces noise from divergence but leaves shared bias intact. Investors who blend providers to manage divergence should therefore also test for shared calibration error.

9. Recommendations

The recommendations reflect the regulatory position in November 2026. Each indicates the actor to which it is addressed.

1. **Pursue interoperability between India and the EU and UK regimes.**
   SEBI's working group should recommend a framework for recognising, or reconciling with, ratings produced under the EU and UK regimes, and seek reciprocal treatment for SEBI-registered providers, so that Indian companies are not rated in two systems that cannot be compared. *Addressed to SEBI, ESMA and the FCA.*

2. **Require coverage disclosure by market and size band.**
   Registered providers should disclose, for each market covered, the share of ratings that rest on estimates or sector defaults, broken down by market-capitalisation band. This addresses the coverage problem that methodology disclosure leaves untouched. *Addressed to SEBI and ESMA.*

[43] Gibson Brandon, Krueger and Schmidt (2021), op. cit.

3. **Publish supervisory statistics on divergence.**
Regulators or exchanges should publish annual statistics on dispersion across registered providers for a defined universe, such as the 500 largest listed companies, creating a public evidence base on the scale and sources of disagreement. *Addressed to SEBI and stock exchanges.*

4. **Test calibration, not only transparency.**
Supervisors should require providers to back-test ratings against subsequent outcomes measured in assured BRSR Core data, distinguishing bias from divergence. *Addressed to SEBI and ERPs.*

5. **Use transition scores in product rules.**
Index administrators and fund managers should use transition scores alongside level-based ratings where mandates concern decarbonisation, so that improvement from a high base is recognised. *Addressed to index administrators and asset managers.*

6. **Disclose provider dependency to end investors.**
Funds and indices using sustainability ratings should disclose which providers they rely on, how they handle disagreement and whether they adjust for market context. *Addressed to asset managers and index administrators.*

7. **Develop common definitions for outcome metrics.**
Because disclosure increases disagreement where definitions are loose, standard setters and SEBI should prioritise common definitions for the outcome metrics in BRSR Core that drive most divergence. *Addressed to SEBI and standard setters.*

8. **Prepare issuers for both rating systems.**
Large Indian issuers seeking international capital should treat assured BRSR Core data as their primary sustainability record and engage both domestic and international providers on how it is used. *Addressed to listed companies.*

10. Conclusion

The divergence of sustainability ratings is well documented and costly. Its principal source is measurement, which makes it open to remedy through common definitions and assured data. Its effects are felt most where coverage is thin and calibration weakest, conditions concentrated in emerging markets.

India has done more than most jurisdictions to address these problems. It mandated standardised disclosure, introduced assurance of core indicators and brought rating providers under statutory registration three years before the EU regime applied, linking a regulated rating category to verified national data. Those reforms have had an unanticipated consequence: by prompting several global providers to withdraw, they have separated India's domestic rating system from the international one. The task now is to connect the two.

Sustainability ratings will serve their purpose in emerging markets when they rest on verified data, are calibrated to the economies they assess, and can be compared across regulatory borders.

India has built the first two foundations. Interoperability with the EU and UK regimes is the third, and SEBI's current review is the moment to pursue it.

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