ESG Ratings

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Complexity with Numerous Reporting /Disclosures
The Role of ESG Ratings

ESG Related Information

Principles and Taxonomies

- ICMA; https://www.icmagroup.org/sustainable-finance/
- UNSDGs; https://sdgs.un.org/es/goals
- EU Taxonomy / CBI Taxonomy/ ASEAN Taxonomy / Chinese Taxonomy https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

Voluntary reporting

- On ESG metrics and materiality: ISSB (building on GRI, SASB, CDP, CSDB)

Mandatory reporting

- SFDR (asset managers & FIs, from 2022)
- CSRD (corporates >250 FTE, expected from 2024)
- TCFD (mandatory in the UK for large corporates and FIs, voluntary elsewhere)

Commitments and policies

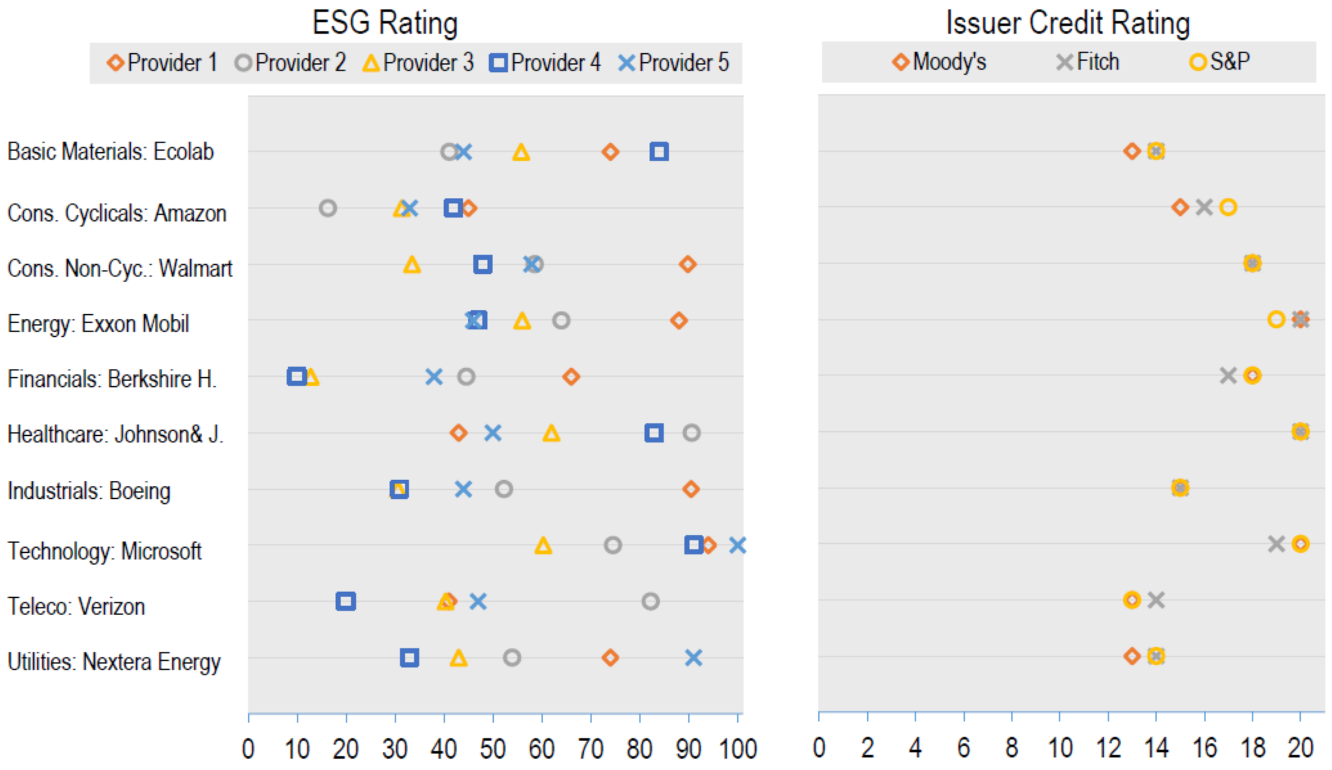
- RE100 (100% renewable commitments by large corporations)
- Net-zero 2050, carbon-neutrality
- Sector specific objectives (end deforestation, recycling rate etc)
- ISO series (14 and 50 series for E, 26 and 45 for S)

What ESG Ratings Do?

Holistic and comprehensive ESG assessments by:

- Reviewing and analysing all the **relevant non-financial documentation**
- **Monitoring** of ESG ratings by sector experts
- **Exchanging** with the investors to **explain the assessment** and with the issuers to **bridge information gaps.**
- **Contextualising** targets ambitiousness and companies' trajectory to their specific sector

Investors Are Calling for Consistency & Granularity



Note: Sample of public companies selected by largest market capitalisation as to represent different industries in the United States. The issuer credit ratings are transformed using a projection to the scale from 0 to 20, where 0 represents the lowest rating (C/D) and 20 the highest rating (Aaa/AAA)

Source: Refinitiv, Bloomberg, MSCI, Yahoo finance, Moody's , Fitch, S&P; OECD calculations

ESG Ratings vs ESG Relevance Scores

Sustainable Fitch | ESG Impact | FitchRatings | ESG Credit Impact

	ESG Ratings	ESG Relevance Scores
Drives Credit Ratings?	✗	✓
Measures Environmental & Social Performance & Commitment	✓	✗
Assesses ESG Actions & Outcomes	✓	✗
Changes over Time	✓	✓
Monitored	✓	✓
Scale	1 (‘excellent’) – 5 (‘poor’); 0-100 granular score	1 – 5 (3, 4 & 5 have degree of negative & positive credit materiality and relevance)

Case Study: ESG Relevance Scores Versus ESG Ratings

Green Covered Bond	
• Issuance: EUR500m • Mortgage Book: EUR 50bn • Use of Proceeds: Increase EPC A by EUR250m	• 75% of asset pool has EPC of A • 60% of asset pool has NHG guarantee • 10% (EUR 5bn) of originator’s total mortgage book = EPC A

ESG Relevance Score (Financial Materiality)

- ESG Relevance Score of **4+** for **Human Rights, Community Relations, Access & Affordability**
- 60% of cover assets have NHG guarantee
- **Social:** Credit profile = Positive impact as lower levels of OC is needed following stresses
- **Green:** Neutral Impact as no difference in OC between EPC A and EPC E as data does not indicate better performance of borrower

ESG Instrument Rating (Impact)

- **Recourse against E & S assets : Score of 1**
  - Investors have privileged access to the E&S assets
  - Commitment to substitution
  - E & S collateral buffer
- **Asset impact assessment : Score of 1.4**
  - EPC A: Score of 1 for Environmental as it is aligned with the EU taxonomy
  - NHG: Score of 2 is for Social as it offers reduced Interest rate for homes up to EUR355,000