

SUSTAINABLE FITCH AND ESG RATINGS: FREQUENTLY ASKED QUESTIONS

WHAT IS SUSTAINABLE FITCH?

Sustainable Fitch is the first global ESG Ratings solution for all asset classes at an entity and instrument level, designed and built entirely and exclusively to help the ESG financial community make smarter decisions. Our focus is, and will always be, on providing transparent, objective and substantive data that enables confidence in decision-making.

HOW DOES IT FIT WITHIN THE BROADER FITCH GROUP?

To best serve our clients and partners, Fitch realised that it would be necessary to build an entirely new suite of objective ESG data and analysis. The new Sustainable Fitch brand is focused on consistency, comparability, coverage and granularity. It's brought to you by our team of ESG experts who've used their expertise in best-in-class analytics and research, and reputation for transparency and integrity to deliver this solution. Sustainable Fitch is a complement to our portfolio of other offerings, including: Fitch Ratings, Fitch Solutions, Fitch Learning, etc.

WHAT MAKES SUSTAINABLE FITCH DIFFERENT?

- Helps customers make better investment decisions
- Offers consistency and comparability for benchmarking
- Built on a reputation of trust
- Offers broad coverage
- Niche market data available as well
- Assists customers in responding to regulations
- Provides data to help customers respond to physical ESG exposure risk
- ESG data that's easy to use in any role

WHY IS ESG DATA SO DIFFERENT DEPENDING ON WHERE IT COMES FROM?

ESG-related investing brings challenges to traditional investing because ESG, by its very nature, is dependent on regulation, governance, and culture. As such, it is a constantly changing landscape.

The industry is unregulated and unstandardized, and information quality and sources are variable and inconsistent. ESG regulation and investors' concerns vary dramatically by region.

WHAT PROBLEMS IS SUSTAINABLE FITCH SOLVING?

- Lack of predictability
- Lack of standardization
- Lack of coverage
- Lack of rigor
- Influx of exaggerated data and greenwashing

WHAT SOLUTIONS ARE OFFERED WITHIN SUSTAINABLE FITCH?

ESG Relevance Scores: Identifies ESG factors' impact on credit ratings in the short term: 3-5 years (same time horizon on the credit rating)

ESG Vulnerability Scores: Identifies ESG factors' impact on credit ratings in the long term: regular intervals from 2025 to 2050

ESG Research: Provides analysis and research on how entities and sectors are impacted by ESG from a credit perspective (medium term)

ESG Ratings: Provides ESG analysis and reports (independent from credit rating) that assess ESG quality of financial instruments and companies / issuers. Grades offered across three main pillars: Framework Grade, Entity Grade, and a Debt Grade

WHAT ARE ESG RATINGS?

ESG Ratings assess an entity's or debt instrument's ESG performance and commitment. For entities our ESG Ratings also provide a view on integration of ESG considerations into business activities, strategy and management. ESG Ratings also assess all types of debt instruments (bonds and loans) whether they are labelled, plain vanilla, or structured instruments, as well as any type of entity – corporate, financial institution, sovereign, supranational and agency (SSA) and structured finance. ESG Ratings provide ESG analysis and reports (independent from credit rating) that assess ESG quality of financial instruments and companies / issuers, providing consistency, granularity and transparency.

THE ESG RATINGS SUITE IS COMPOSED OF THREE MAJOR PILLARS:

- ESG Entity Ratings (ER1-5): Evaluate the entity activities from an environmental and social perspective, as well as the quality of overall environmental, social and governance policies, procedures and outcomes
- ESG Instrument Ratings (IR1-5): Evaluate the ESG characteristics of a debt instrument in the context of the ESG rating for the entity that has issued the debt. This enables an absolute comparison of the ESG characteristics of all instruments (labelled or conventional)
- ESG Framework Ratings (FR1-5): For labelled or KPI-linked debt instruments, we evaluate the quality of the debt instrument framework use of the proceeds raised from the issuance as well as the strength of the framework

The ratings are on a scale from one to five, where one is the best outcome. The ratings are derived from a more granular score from zero to 100, which is available as a dataset to investors wanting to take a more granular and quantitative based approach.

WHAT MAKES FITCH QUALIFIED TO PRODUCE ESG RATINGS?

Over the last four years we have developed in-house ESG experience, and also hired a substantial team of dedicated ESG analysts which we are continuing to grow and expand (we will number over 50 dedicated ESG analysts by the end of 2021).

As one of the first credit ratings agencies, and the inventor of the AAA to D ratings scale, we have over 100 years' experience of developing and applying rigorous analytical methodologies as well as a reputation for clarity and transparency of analysis. Over the last 18 months we have combined that expertise with specialist ESG knowledge to develop what we believe to be a comprehensive, transparent and granular ESG analysis framework. We have tested this framework with investors and received overwhelmingly positive feedback.

We are launching our ESG products with an initial coverage of all labelled and sustainability-linked bonds (to demonstrate the granularity and comparability), and intend to continue to expand and refine our offering in line with investor needs.

WHAT TYPES OF CUSTOMERS DO YOU SERVE?

We serve a broad range of financial services professionals, including investors, asset managers, asset owners, issuers, DCM bankers, bank risk managers, sustainable finance leads and strategic partners. Our ESG ratings can be used by both fixed income and equity (ESG Entity Ratings) investors.

Our ESG ratings will be rolled out across all asset classes, including financial institutions, corporates, leveraged finance, structured finance, project finance, public finance, and emerging markets.

WHAT ARE THE INFORMATION REQUIREMENTS FOR PRODUCING ESG RATINGS?

Currently issuers produce ESG data in a range of formats that vary between industries and issuers. In the course of undertaking our analysis we would expect to review the following types of documents for the ESG Entity Ratings (ER):

- Annual Report
- Sustainability Report
- Sustainability performance indicators
- Financial Statements
- Strategic and directors report
- Corporate governance report
- Company investors Presentation
- Non-financial information reports
- Global Reporting Initiative (GRI), Carbon Disclosure Project (CDP) or other reports or voluntary frameworks
- Energy and carbon/ biodiversity position
- Supply-chain management
- Compensation report

For the ESG Instrument Rating we would expect to review the following types of documents:

- Green/social/sustainability bond framework
- Sustainability-linked bond framework
- Allocation and impact reports and tables
- Green/social/sustainable portfolio report
- Bond investors' presentation
- Base prospectus/offering circular, issuance program and final terms for conventional and labelled debt instruments

As there is no standard format for sustainability reports, this list should be considered indicative rather than exhaustive.

WILL THERE BE A COMMITTEE TO DECIDE THE SCORE / OUTCOME?

Yes. Each ESG Rating is verified and controlled by a dedicated Approval Committee (AC) ahead of publication, ensuring standardization and quality of the analysis. The AC needs to have a quorum of at least three members, of which two members have a Director title or above.

ARE THE RATINGS MONITORED AND MAINTAINED?

Yes. The ESG analyst will be responsible for monitoring and maintaining the ESG Ratings on an ongoing basis. ESG Ratings will be reviewed by the ESG analysts at least annually.

There may be an update if there is a major ESG event that triggers a material change in an ESG Rating.

HOW DO YOUR ESG RATINGS RELATE TO YOUR CREDIT RATINGS?

While ESG Ratings are focused on “pure” ESG analysis (no reference to any credit impact), ESG factors are already integrated into some of our Credit Research & Analysis, including ESG Relevance Scores which articulate the level of influence an ESG issue has had on a credit rating decision based on an entity’s forward-looking forecasts. ESG data is also integrated into our Climate Vulnerability Scores, which offer credit risk analysis over time, including comparisons for specific sectors, entities within a sector, and debt instruments.

WHAT EXTERNAL DATA SETS DO YOU PROVIDE FOR USERS?

For GSS instruments

- Full Instrument Level Descriptive Analysis
- Use of Proceeds Analysis (Grades, NACE, Allocation share – all for each UoP)
- Use of Proceeds/Other Info (Targets, Refinancing share, Lookback period)
- Project Evaluation & Selection Analysis (Grade)
- Management of Proceeds (Grade, Tracking method)
- Reporting & Transparency (Grade, Verifier, Frequency, Capex/Opex mix, Impact metrics)
- Transition Label (if applicable)
- ICMA alignment scorecard
- SDGs alignment details
- EU Green Bonds Standards alignment scorecard
- Instrument relevance & Instrument/ Business Activities integration

For Sustainability-linked instruments

- Full Instrument Level Descriptive Analysis
- Full details on KPI, Performance Targets, Bond Features, Reporting Frequency, Verification)
- Transition Label (if applicable)
- ICMA alignment scorecard
- Instrument relevance

For Entities

- Full Company Specific Descriptive Analysis
- A breakdown of Company Business Activities (Environmental and social Grades, NACE, Impact on Revenues or other relevant/available financial metric for each activity)
- ESG Company Strategy (Grade)
- Environmental (Grade, Targets list/details, Disclosure Grade, Evolution Grade, Risk & Incident treatment Grade, Target and Supply Chain Grade)
- Social (Grade, Community and Customers Grade, Diversity Grade, Human Rights Grade, Labor Rights Grade, Risk & Incident treatment Grade, Target and Supply Chain Grade)
- Governance (Grade, Financial & Reporting Grade, Remuneration Grade, Risk Management Grade, Tax Management Grade, Top Management and Control Grade)
- SDGs alignment details
- Company Impact metrics
- Sector Trajectory / Company Direction (Commentary)
- Pure Player label

WILL ESG RATINGS BE REGULATED OR NON-REGULATED?

At the moment ESG Ratings do not fall under the remit of a regulator but we are anticipating that they will become a regulated product in the future. We have developed our analysis framework with the same rigor and consistency that we apply to credit ratings, and therefore believe we should be well prepared for future ESG regulatory developments. We believe regulation of ESG service providers is likely to start in the near to medium term, next 1-5 years.

How do I find out more about ESG Ratings or any of the other capabilities offered by Sustainable Fitch?

Email us at:

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Find out more about
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