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S&P Global Ratings Launches ESG Sections In Corporate Credit Rating Reports

Primary Credit Analyst:
Michael Wilkins, London (44) 20-7176-3528; mike.wilkins@spglobal.com

Secondary Contacts:
Michael T Ferguson, CFA, CPA, New York (1) 212-438-7670; michael.ferguson@spglobal.com
Nicole D Martin, Toronto (1) 416-507-2560; nicole.martin@spglobal.com
Gregg Lemos-Stein, CFA, London (44) 20-7176-3911; gregg.lemos-stein@spglobal.com
Karl Nietvelt, Paris (33) 1-4420-6751; karl.nietvelt@spglobal.com
Peter Kernan, London (44) 20-7176-3618; peter.kernan@spglobal.com

LONDON (S&P Global Ratings) Jan. 31, 2019--S&P Global Ratings today announced that it has started to include environmental, social, and governance (ESG) sections within its issuer credit rating reports on corporate entities.

The announcement coincides with the publication of the UN Principles for Responsible Investment (PRI)'s third instalment of the "Shifting Perceptions: ESG, Credit Risk And Ratings" report series, which recommends that credit rating agencies (CRAs) explicitly signpost credit-relevant ESG risks and opportunities in rating reports.

As a member of the PRI's Advisory Committee on Credit Ratings (ACCR), we have worked with the PRI since the launch of the ESG in Credit Ratings Initiative in 2016, presenting at investor roundtables globally and contributing to the two previous reports in the series, which help to clarify the link between sustainability and credit quality.

Michael Wilkins, Managing Director and head of Sustainable Finance, S&P Global Ratings, said: "The fixed-income market's heightened focus on ESG has only emerged recently. However, ESG has been at the heart of our ratings approach for many years. We have long incorporated ESG considerations into our credit analysis. What we aim to do now is to more clearly underline to industry bodies, investors, and stakeholders how we do so."

We are phasing in the incorporation of ESG sections into our corporate ratings reports. The process started with two sectors that have greater exposure to ESG risks and opportunities--the oil & gas and utilities sectors. An example is shown here: BP PLC, published Nov. 12, 2018.

We are now rolling out the new section to all major companies across every sector, and to smaller companies in the sectors most exposed to ESG factors, which may be relevant to ratings. In all, we expect to incorporate ESG sections in approximately 2,000 credits through the course of the year. This represents around 40% of our rated corporate universe.

Carmen Nuzzo, Senior Consultant, Credit Ratings Initiative, UN Principles for Responsible Investment, adds: "The inclusion of ESG sections within rating reports is a crucial step in addressing one of the key investor-CRA disconnects that we identified at the start of the initiative. As such, we welcome S&P Global Ratings' proactivity and efforts to enhance transparency across its ratings analyses--especially as market interest in ESG factors continues to rise."

The inclusion of an ESG-focused section in credit reports is the latest innovation in S&P Global Ratings' sustainable finance-related capabilities and research. Last year, we completed our two-year ESG Lookback series across all practices, which identified historical patterns for environmental and climate, social, and governance risks, as well as cases where such factors had directly or indirectly informed a rating action between 2015 and 2018. In total, we identified 372 instances where ESG factors had an impact on ratings. For corporates alone, approximately 15% of all rating reports during this period referenced ESG factors as a meaningful part of the credit analysis. The reports provided conclusive evidence of the influential role that ESG risks can play in credit quality, thus laying the foundation for greater transparency regarding disclosure of ESG factors.

Our ratings are an opinion of creditworthiness. Potential rating factors--including ESG credit factors--are considered if we believe they may affect creditworthiness. An ESG credit factor is one that could affect our opinion of the creditworthiness of a corporate entity, for example, through:

- Reducing or increasing business or regulatory risk;
- Reducing or increasing profitability or its stability;
- Reducing or increasing cash flow or its stability;
- Changing debt levels and financial risk in our financial forecasts or over a longer time horizon, if sufficiently visible and material to our ratings.

Further research and information on how ESG factors are incorporated into S&P Global Ratings' analyses can be found here: https://www.spglobal.com/en/who-we-are/corporate-responsibility/esg

RELATED RESEARCH

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- How Social Risks And Opportunities Factor Into Global Corporate Ratings, April 11, 2018
- Credit FAQ: How Does S&P Global Ratings Incorporate Environmental, Social, And Governance Risks Into Its Ratings Analysis, Nov. 21, 2017
- How Environmental And Climate Risks And Opportunities Factor Into Global Corporate Ratings - An Update, Nov. 9, 2017

EXTERNAL RESEARCH

- Shifting Perceptions: ESG, Credit Risk And Ratings, Part 3: From Disconnects To Action Areas, published by UN Principles for Responsible Investment and available here: www.unpri.org/credit-ratings

The report is available to subscribers of RatingsDirect at www.capitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@spglobal.com. Ratings information can also be found on S&P Global Ratings' public website by using the Ratings search box located in the left column at www.standardandpoors.com. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4009.

This report does not constitute a rating action.