

# Fitch Ratings ESG Relevance Scores Data

Simply being told that an entity, transaction or program has associated ESG risk issues isn't enough. You need to know whether those issues will actually impact the rating. Fitch Ratings ESG Relevance Scores give you a transparent and easily comprehensible view of which issues are material and relevant to your credit assessment.

## Easily and appropriately evaluate ESG risk in your credit assessment

There is growing pressure from asset owners to incorporate ESG factors into credit risk assessments. There is also evidence<sup>1</sup> of correlation between ESG and credit worthiness. But up until now, fixed income ESG data has been disparate, difficult to obtain and hard to work with. Fitch Ratings ESG Relevance Scores Data is the first product of its kind to close this gap. The data provides a value neutral view on how different ESG factors specifically impact credit.

## Quickly identify which ESG risk issues are material and relevant

Simply being told that an entity, transaction or program has associated ESG risk issues isn't enough. You need to know whether those issues will actually impact the rating. Fitch Ratings ESG Relevance Scores give you a transparent and easily comprehensible view of which issues are material and relevant to your credit assessment.

## Ensure you are being sufficiently rewarded for ESG risk

Each credit you assess has a different level of ESG risk which could impact the return on your investment. The ESG Relevance Scores Data provides a way to cross compare these risks at an entity and transaction specific level to help you evaluate whether you are being adequately compensated for the degree of ESG credit risk you are exposed to.

## Validate whether you are assessing your ESG risk appropriately

The ESG Relevance Scores Data can also be used as a screening tool to validate your own value judgements on how ESG impacts credit risk. Quickly identify high scoring outliers, so you can go back, perform additional research where necessary and confirm your view.

1. S Subramanian, D Suzuki, A Makedon, J C Hall, Marc Pouey and J Bonilla, "Equity strategy focus point: ESG: good companies can make good stocks", Bank of America Merrill Lynch, December 2016

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## How relevant are E, S and G issues to the overall credit rating?

<b>5</b>		Highly relevant, a key rating driver that has a significant impact on the entity rating on an individual basis.
<b>4</b>		Relevant to rating, not a key rating driver, but has an impact on the entity rating in combination with other factors.
<b>3</b>		Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating.
<b>2</b>		Irrelevant to the entity rating, but relevant to the sector. Conceptually applicable from a credit perspective for the sector, but unlikely to impact a rating.
<b>1</b>		Irrelevant to the entity rating and irrelevant to the sector. Conceptually inapplicable from a credit perspective for the sector

### Where does the data come from?

Fitch Ratings ESG Relevance Scores are created by senior analysts who are assigning forward-looking, through the cycle ratings, and assessing which ESG risk issues impact the rating. The scores do not make value judgments on whether an entity engages in good or bad ESG practices, but draw out which specific E, S and G risk elements are influencing the credit profile.

### What does the data include?

Scores range from '5' to '1', with a higher score indicating greater relevance. A relevance score of '5' indicates an ESG risk factor that on a standalone basis has a direct impact on the rating. Conversely, a score of '1' indicates an ESG risk factor which has no credit impact or is irrelevant to the sector and the entity/transaction/program from a credit perspective.

### Broad market coverage

This data includes ESG relevance scores for the majority of Fitch's publicly rated entities and transactions across non-financial corporates, banks, non-bank financial institutions (NBFIs), insurance, public finance (international and US municipal), global infrastructure, structured finance and sovereigns.

Upcoming enhancements will include historical data and additional entities.



### Fitch ESG Score Coverage by Sector

Fitch Analytical Groups	ESG Templates	No. of Issuers/Transactions	No. of Data Points	% Some Impact
Corporates	52	1,590	22,260	23%
Financial Institutions	4	1,392	19,488	15%
Sovereigns	2	145	2,155	100%
Public Finance & Infrastructure	28	2,720	39,051	7%
Structured	20	4,339	60,746	19%
<b>Total</b>	<b>106</b>	<b>10,186</b>	<b>143,700</b>	<b>17%</b>

Source: Fitch Ratings, Data as of 31 March, 2021

## Achieve your commitment to incorporate ESG into your investment analysis and decision-making

Whether to serve client requirements, internal ESG goals or to help meet your commitment under the UNPRI, the Fitch Ratings ESG Relevance Scores Data provides an easy, transparent, comprehensive and consistent way to incorporate ESG risk into your credit assessments. Filter the data into your own dashboards and alerts for instant access to the most credit focused ESG information available in the market today.

### Granular detail

When you need to screen for prescriptive tolerances for certain types of ESG risk, you need to get a more detailed view of exactly which ESG issues are considered material and relevant to credit ratings. The data provides a level of granularity that goes beyond just identifying whether a risk is environmental, social or governance based. It identifies specific E, S and G credit risk issues and groups them into 14 or 15 subfactor scores for 100 different sectors.

When you see a high score identified against a particular entity, transaction or program, you can quickly identify exactly which of the 14 or 15 subfactor scores is a cause for concern, and drill down to the industry specific ESG risk factor impacting the rating.

For each rated entity or transaction, Fitch Ratings ESG Relevance Scores Data includes:

- Overall ESG Score
- Overall Environmental Score
- Overall Social Score
- Overall Governance Score
- 14 or 15 ESG Relevance Sub-factor Scores (different per sector):
  - 5 Environmental Scores
  - 5 Social Scores
  - 4 or 5 Governance Scores (depending on sector / asset class)
- Positive impact indicator (PII) for any score that is 4 or 5
- Historical ESG data (coming as an enhancement)

## Fitch ESG Relevance Score Framework

INCORPORATING SECTOR SPECIFICS IN BROAD E, S, AND G CATEGORIES

### GENERAL ISSUE CATEGORIES



**5 ENVIRONMENTAL CATEGORIES**  
**5 SOCIAL CATEGORIES**  
**4 or 5 GOVERNANCE CATEGORIES**

- Set of General Issue categories for consideration across sectors.
- Align with widely accepted classification standards like the one published by the Sustainability Accounting Standard Board (SASB).
- Standardized across sectors.
- Different for non-Sovereign and Sovereign (including state and local government) entities.
- Governance General Issue categories are different for Structured Finance transactions and Covered Bond programs.

### SECTOR SPECIFIC CREDIT ISSUES



**106 UNIQUE ESG SECTOR TEMPLATES**

- Extract the elements of the ESG that affect fundamental credit at a sector level.
- Identify sector-specific ESG credit issues that relate to each of the General Issue categories.
- For some sectors, one or more General Issue categories are not material to the credit quality of entities in that sector and denoted as "n.a."
- The specific rating criteria factor(s) within which the corresponding ESG Issues are captured in Fitch's credit analysis is (are) highlighted in each General Issue category.

### SCORING OF MATERIALITY TO CREDIT RATING



**14 or 15 SCORES AND 1 AGGREGATE SCORE FOR EACH ENTITY/TRANSACTION/PROGRAM**

- Individual E, S and G relevance scores range from 5 to 1.
- A score of 5 indicates factors that on a standalone basis have a direct impact on the credit rating.
- Conversely, a score of '1' indicates factors that have no credit impact or are irrelevant to the credit rating.



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## Explore an easier way to incorporate ESG risk into your credit assessments

To learn more about how the Fitch Ratings ESG Relevance Score Data can help you easily evaluate ESG risk in your credit assessment, please visit [fitchsolutions.com/esg](https://fitchsolutions.com/esg) or contact the nearest office:

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## About Fitch Solutions

Fitch Solutions fuels better informed credit risk and strategy decisions with reliable data, insightful research and powerful analytics. Get the crucial intelligence and fresh perspectives you need, especially in markets where information is hard to find and difficult to interpret.

Our data and research are produced with accuracy, granularity and depth. Leverage workflow efficiencies, transparent methodologies, and accessible experts who add extra value to our products.