



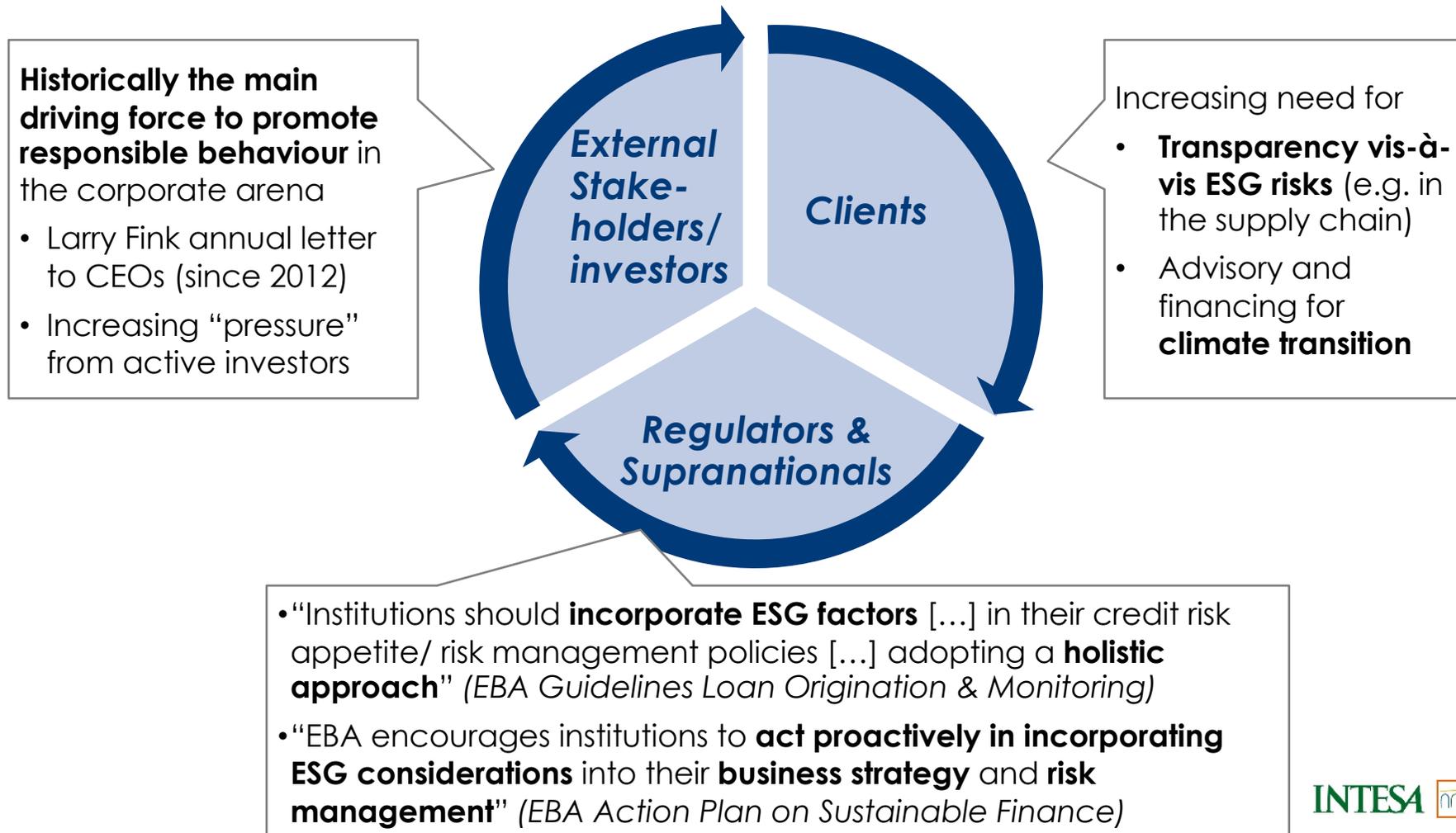
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# ESG Scoring for Corporates: best practices and challenges

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# INCREASING ATTENTION OF GENERAL SOCIETY TOWARDS THE INCLUSION OF "ESG" CONSIDERATIONS IN BANK'S STRATEGIES AND PROCESSES

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# ESG SCORING/RATING MODELS PRESENT SIMILARITIES WITH CREDIT RATING MODELS...

 = similarities  
 = differences

## Credit Rating Models



## ESG Scoring

Use of both **quantitative and qualitative data** to summarise relevant information in an overall assessment (e.g. A,B,C rating)

Driven by evolutions in **banking supervision and regulatory context**:

**International convergence** of standards through Basel II reforms

**Increasing focus** with strong leadership from European Institutions (i.e. ECB, EBA)

**Clear guidelines / standards for rating methodologies** allowing a **limited degree of flexibility** for bank tailoring

**No clear guidance / default model for ESG scoring**, with diverging and “proprietary” approaches used by various players (e.g. ESG vendors)

**Capturing risks** with credit impact

**Capturing both risks and opportunities**

# ..HOWEVER, THERE IS NO STANDARD APPROACH FOR ESG SCORING, RESULTING IN LOW MARKET CORRELATION

Approaches developed by ESG market players differ due to various methodological and data-driven choices

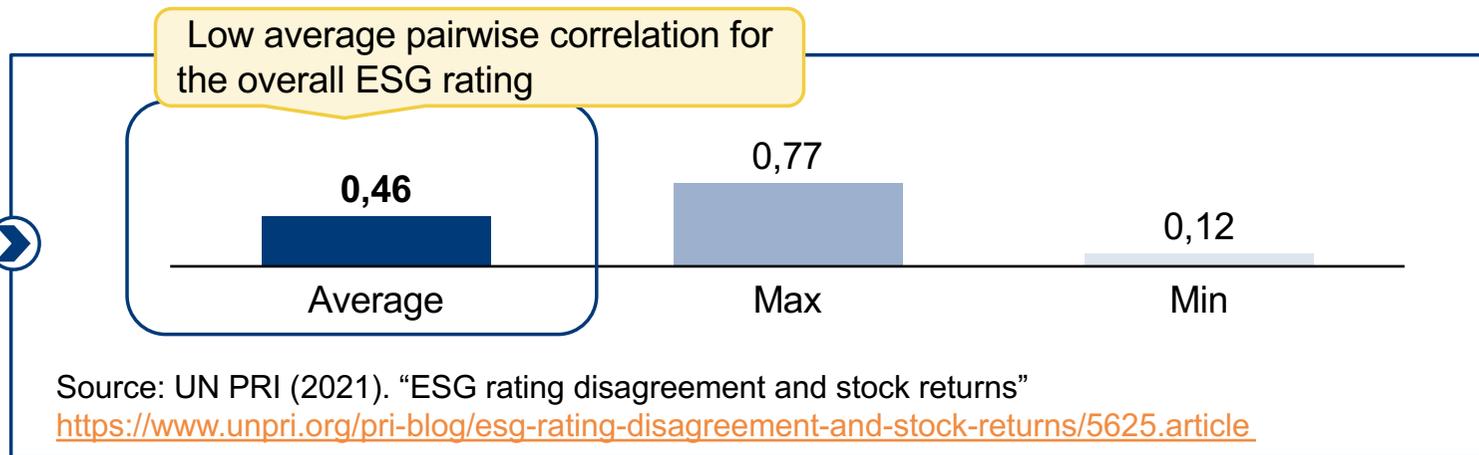
## Methodologies

- Aggregation and weighting approach
- Normalisation (e.g. cross-sector or within sector)
- Standardisation

## Inputs / KPIs

- Data sources used
- Selected KPIs (#, thematic coverage)
- Data pre-processing

Studies show a low correlation observed among key ESG rating providers



# DESPITE THE WIDE RANGE OF ESG VENDORS, MOST OF THE COVERAGE IS ON LISTED ISSUERS

ILLUSTRATIVE AND NOT EXHAUSTIVE

The **ESG vendor landscape** includes a wide range of vendors, **from global to local players**

Data offered spans from broader “**ESG**” assessments to **specialised analytics** (e.g. climate risk)

Coverage is mostly focused on **listed companies** / instruments, as private markets still present significant data gaps



# APPROACHES FOR NON LISTED COMPANIES BUILD ON DIFFERENT ASPECTS

Source	Type	Description
External	Vendor ESG data	<ul style="list-style-type: none"> <li>ESG data <b>provided by external vendors</b>, mostly covering larger companies (i.e. publishing non-financial disclosures), however expanding to non-listed <i>limited</i></li> </ul>
	Estimation Models	<ul style="list-style-type: none"> <li><b>Estimation</b> models developed by vendors or internally <b>to proxy specific data points</b> (e.g. emissions) based on key characteristics (e.g. sector, turnover)</li> </ul>
Internal	Internal data	<ul style="list-style-type: none"> <li><b>Data sourced from clients</b> either in <b>structured or un-structured</b> manner as part of internal or credit processes <b>and also relevant for ESG assessment</b></li> </ul>
	Client Questionnaire	<ul style="list-style-type: none"> <li><b>Ad-hoc client questionnaire</b> can be used as complementary tool <b>to directly source selected data-points</b> from clients</li> </ul>
Other	Natural Language Processing	<ul style="list-style-type: none"> <li><b>Natural Language Processing</b> and web-scraping used <b>to collect data from online sources</b> (also offered by ESG vendors)</li> </ul>

# ESG SCORE CAN BE LEVERAGED FOR VARIOUS INTERNAL PROCESSES

NOT EXHAUSTIVE

	<b>Client Engagement Strategies</b>	<b>Better understanding of client</b> enabling to <b>support them</b> in their ESG objectives and <b>transition</b>
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	<b>Credit Approval</b>	Integration of ESG assessment to foster <b>responsible credit decisions</b>
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	<b>Credit Risk Measurement</b>	<b>Complementary assessment to credit rating</b>
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	<b>Portfolio steering and incentives</b>	Assessment to be integrated in <b>portfolio steering strategies</b> (new origination)
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	<b>Monitoring and Reporting</b>	Enhancement of internal and external reporting, <b>increasing transparency</b>
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# GIVEN REGULATORY CONTEXT, EXPECTATIONS ARE FOR ESG FOCUS TO GROW 7

Recent developments in the European Union legislative and regulatory context **will provide further stimulus** towards ESG rating practices:

	Context	Timeline	Implications
 <p>Implementation of the <b>EU taxonomy</b> for sustainable activities</p>	<p>A EU-wide <b>classification system</b>, establishing a list of <b>environmentally and socially sustainable economic activities</b></p>	<p>01 Jan. 2023<sup>1</sup> for non FIs</p>	<p><b>Greater understanding of actual environmental and social performance</b> of companies against set standards</p>
 <p>Implementation of the <b>Corporate Sustainability Reporting Directive</b></p>	<p><b>Expansion</b> and refinement of non-financial reporting, based on new <b>sustainability reporting standards</b></p>	<p>October 2022</p>	<p><b>Greater disclosure by firms</b> (including SMEs) <b>improving ESG data availability</b> and quality</p>
 <p><b>Regulatory scrutiny across ESAs</b> (i.e. ESMA, EBA, EIOPA) <b>on ESG rating providers</b></p>	<p>Calls for <b>legislative actions on ESG ratings</b> and assessment tools to ensure their quality and reliability</p>	<p><i>Ongoing</i></p>	<p><b>Potential regulation of ESG scoring</b> from external vendors to <b>foster alignment</b></p>

1. In view of the entry into force and application of Climate Delegated Act by the end of 2021 and material difficulties for assessing compliance of economic activities in 2022 with technical screening criteria laid down in that Delegated Regulation for the previous reporting year, the application of this Regulation in 2022 should be limited to certain elements and qualitative reporting, with the remaining provisions starting to apply from 1 January 2023 for non-financial undertakings and from 1 January 2024 for financial undertakings.