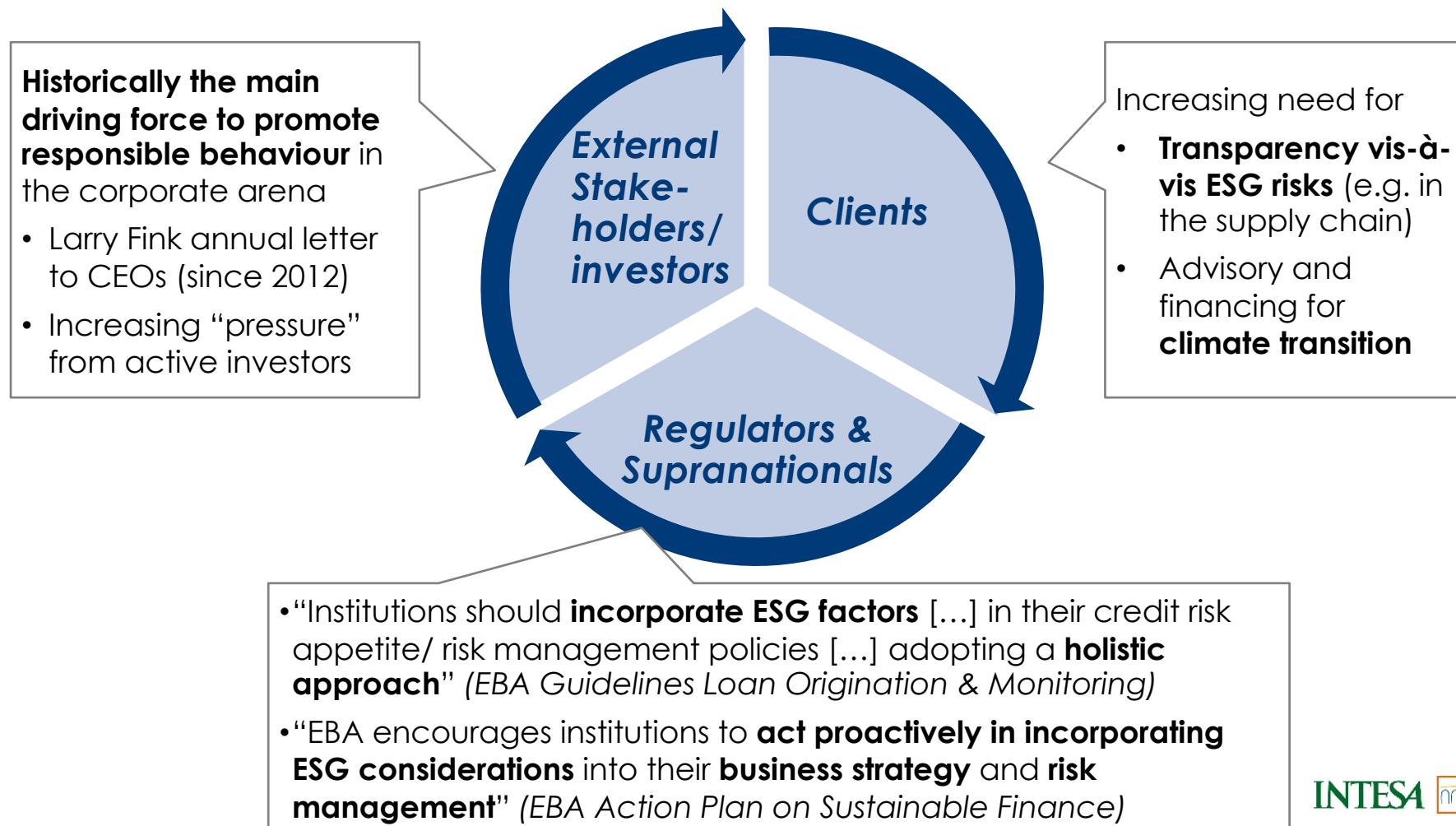




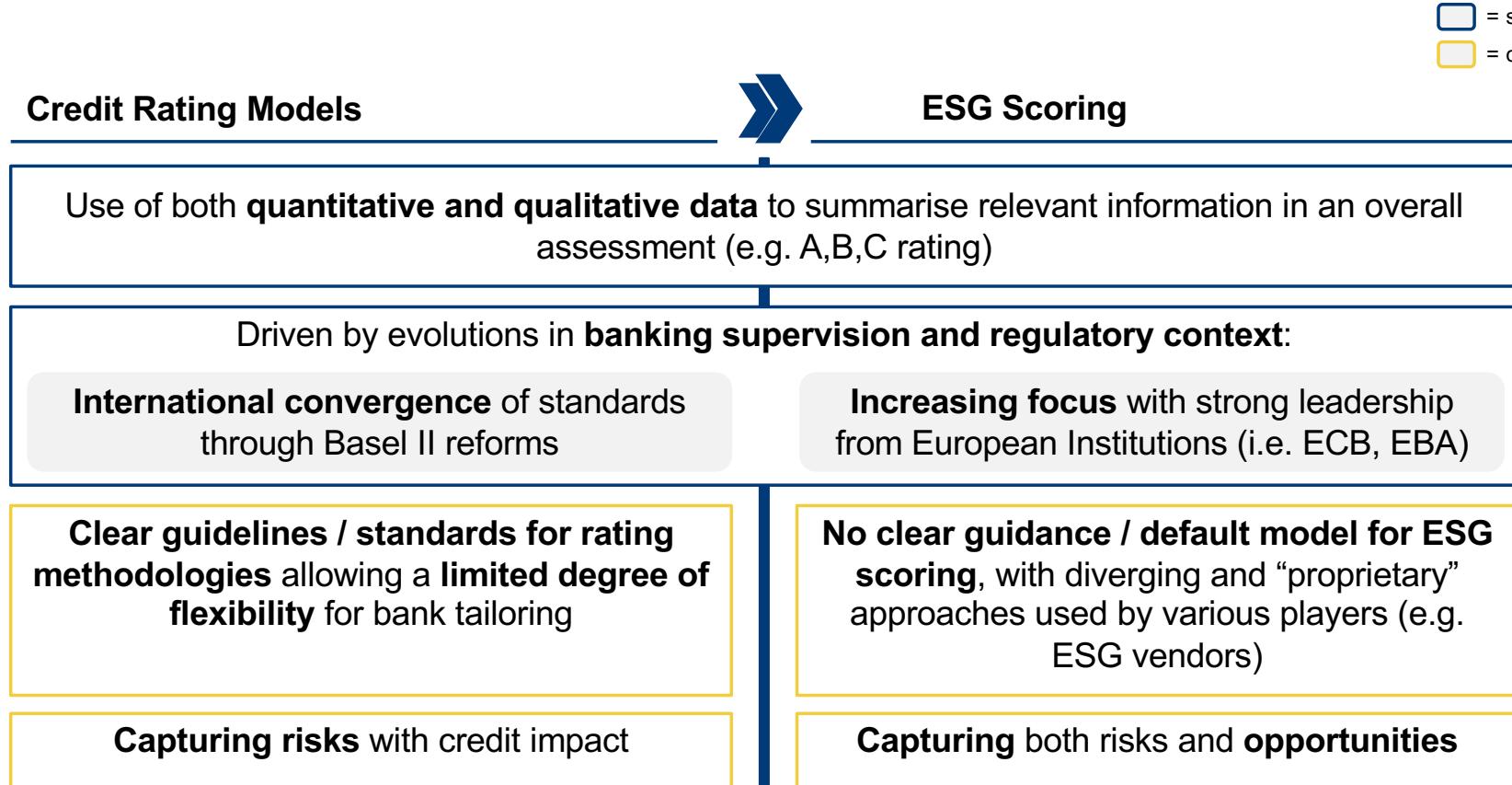
ESG Scoring for Corporates: best practices and challenges

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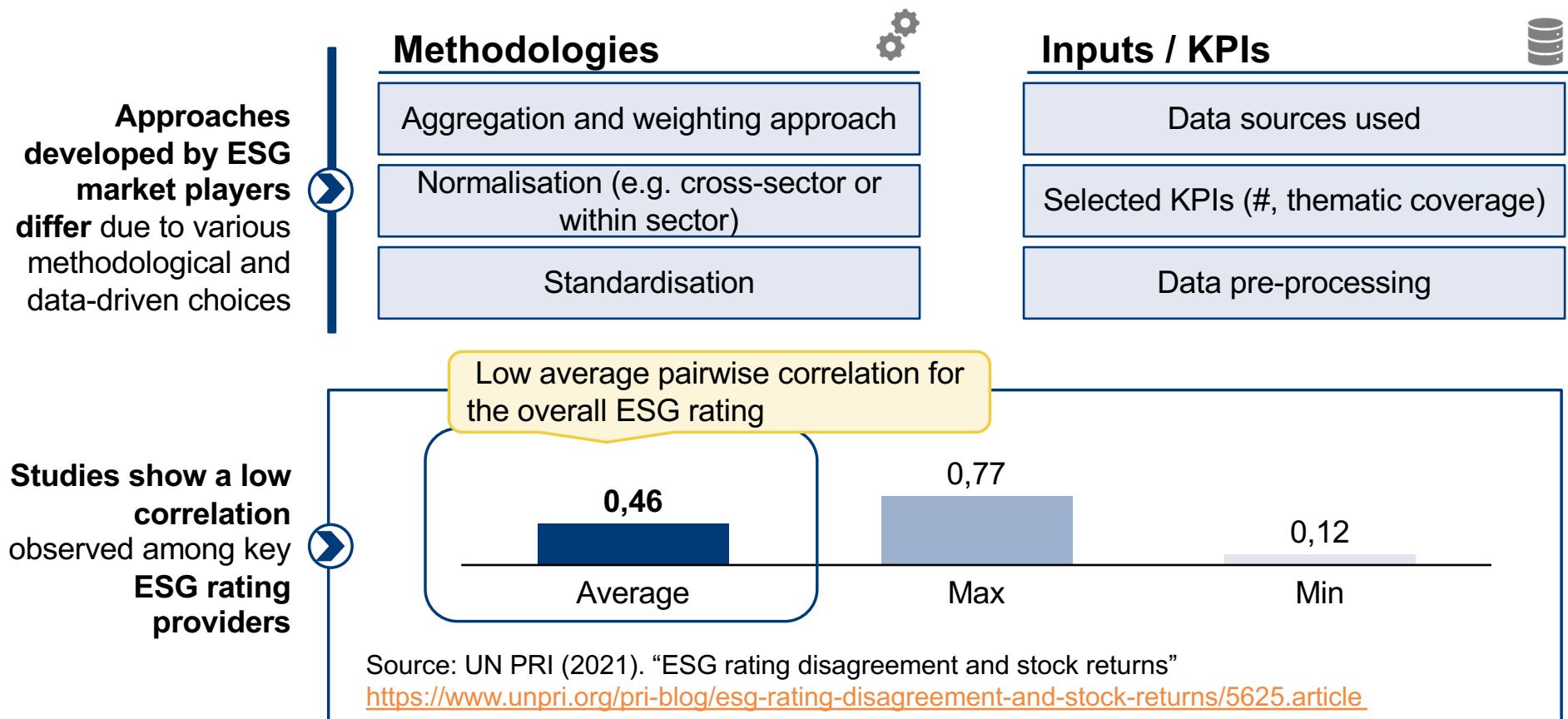
INCREASING ATTENTION OF GENERAL SOCIETY TOWARDS THE INCLUSION OF "ESG" CONSIDERATIONS IN BANK'S STRATEGIES AND PROCESSES



ESG SCORING/RATING MODELS PRESENT SIMILARITIES WITH CREDIT RATING MODELS...²



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



DESPITE THE WIDE RANGE OF ESG VENDORS, MOST OF THE COVERAGE IS ON⁴ 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"> • ESG data provided by external vendors, mostly covering larger companies (i.e. publishing non-financial disclosures), however expanding to non-listed <i>limited</i>
	Estimation Models	<ul style="list-style-type: none"> • Estimation models developed by vendors or internally to proxy specific data points (e.g. emissions) based on key characteristics (e.g. sector, turnover)
Internal	Internal data	<ul style="list-style-type: none"> • Data sourced from clients either in structured or un-structured manner as part of internal or credit processes and also relevant for ESG assessment
	Client Questionnaire	<ul style="list-style-type: none"> • Ad-hoc client questionnaire can be used as complementary tool to directly source selected data-points from clients
Other	Natural Language Processing	<ul style="list-style-type: none"> • Natural Language Processing and web-scraping used to collect data from online sources (also offered by ESG vendors)

ESG SCORE CAN BE LEVERAGED FOR VARIOUS INTERNAL PROCESSES

NOT EXHAUSTIVE

	Client Engagement Strategies	Better understanding of client enabling to support them in their ESG objectives and transition
	Credit Approval	Integration of ESG assessment to foster responsible credit decisions
	Credit Risk Measurement	Complementary assessment to credit rating
	Portfolio steering and incentives	Assessment to be integrated in portfolio steering strategies (new origination)
	Monitoring and Reporting	Enhancement of internal and external reporting, increasing transparency

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

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.