

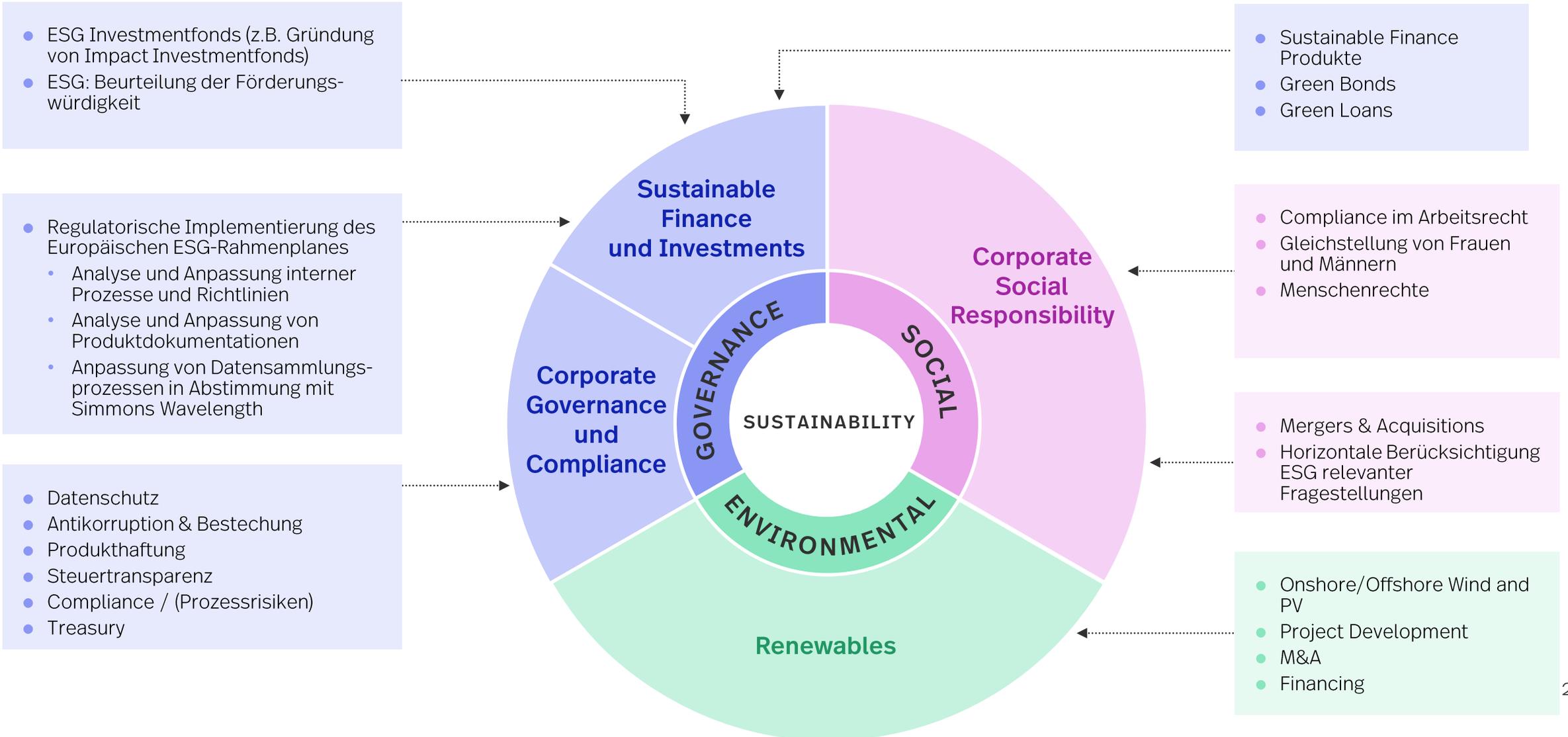
Sustainability@SimmonsGermany

ESG-Ratings und KPIs: Transparenz und Messbarkeit von ESG-Kriterien

Dr. Julia Haake
Michaela Sopp
Dr. Harald Glander

28. JUNI 2022

ESG - so können wir Sie unterstützen



Unsere Veranstaltungen 2022

Veranstaltung verpasst? On Demand verfügbar

- **ESG & Diversity:** Kann man Äpfel und Birnen miteinander vergleichen?
- **ESG für Versicherungen:** Underwriting, Ausschlüsse, D&O
- Beyond Greenwashing – die wachsende Bedeutung von **ESG bei M&A-Transaktionen**
- **Monitorships:** Wenn Behörden einen Aufpasser verordnen
- Gerechtigkeit in der **Lieferkette**
- u.v.m.



HEUTE,
28. Juni 2022

More
soon

ESG:
ESG-Ratings und KPIs:
Transparenz und Messbarkeit von
ESG-Kriterien

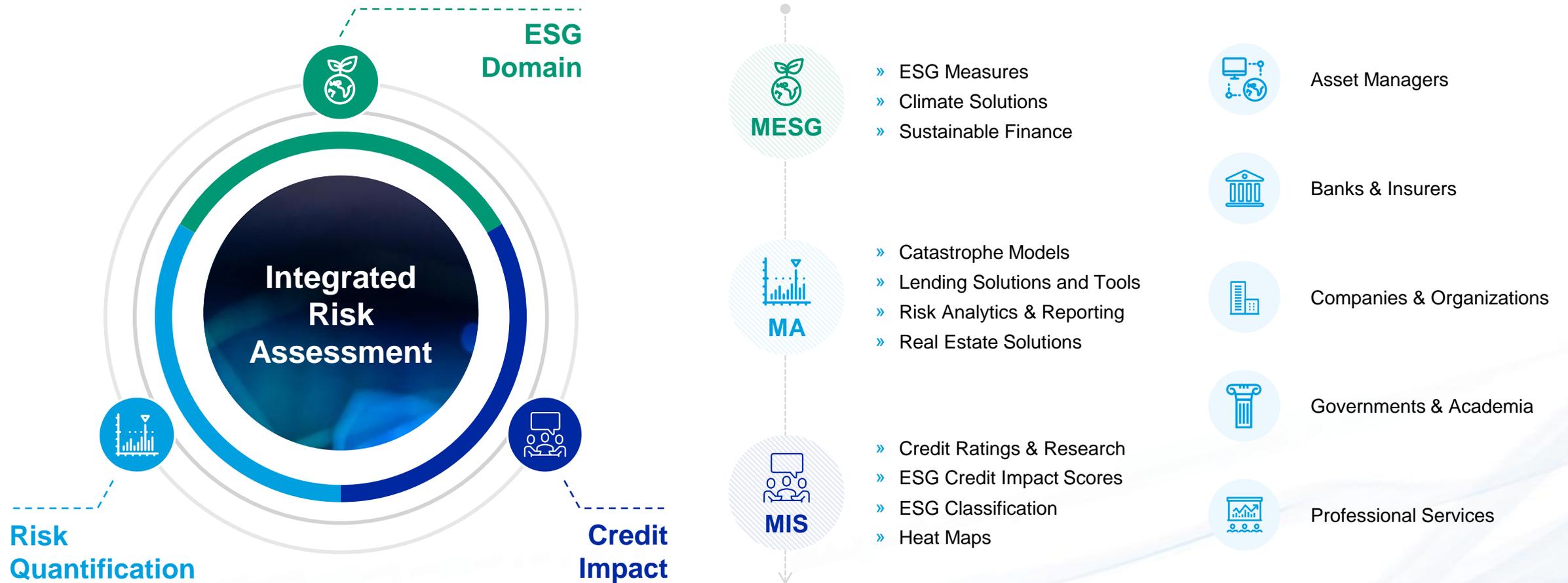


ESG-Ratings und KPIs: Transparenz und Messbarkeit von ESG-Kriterien

Agenda

1. Trends in Responsible Investment & Sustainable Finance
2. ESG Assessments and Data
3. Moody's ESG Assessments

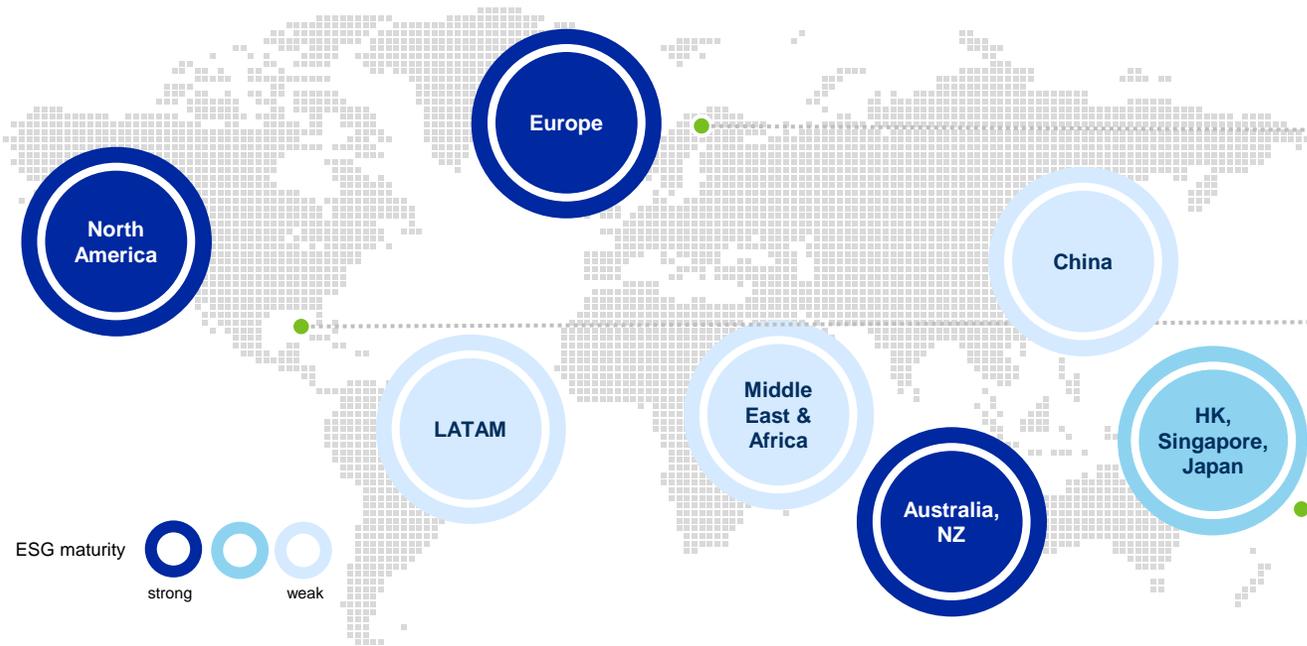
Moody's ESG & Climate Market Solutions



1

Trends in Responsible
Investment & Sustainable
Finance

ESG Market Development



MARKET DRIVERS

EUROPE

- » Pressure from regulation and stakeholders
- » Increasing competition among asset managers and banks to showcase ESG capability
- » Rising focus on specific topics, reporting & technology

AMERICAS

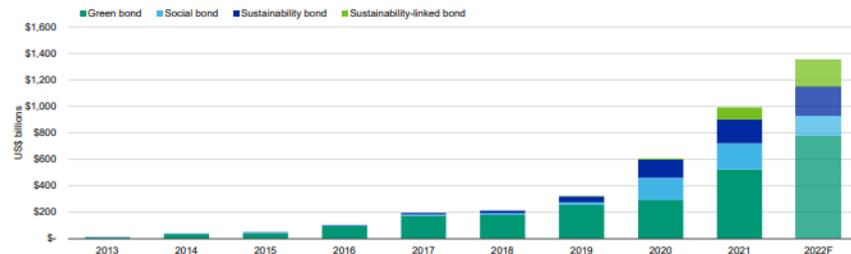
- » Significant market growth, rapidly growing SPO market
- » Voluntary industry move, with favourable administration
- » ESG integration and stewardship prominent in Canada, US

APAC

- » Increasing number of asset owners
- » Asian companies offer unique ESG investment opps for global investors
- » ESG and climate regulatory disclosure set to accelerate in APAC

SUSTAINABLE FINANCE MARKET

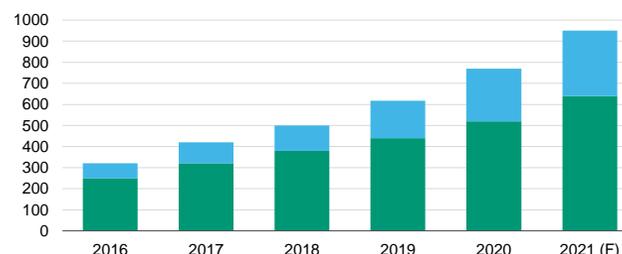
Annual issuance of GSSS bonds, US\$ billions



Source: Moody's, 2022

ESG DATA & INFORMATION MARKET

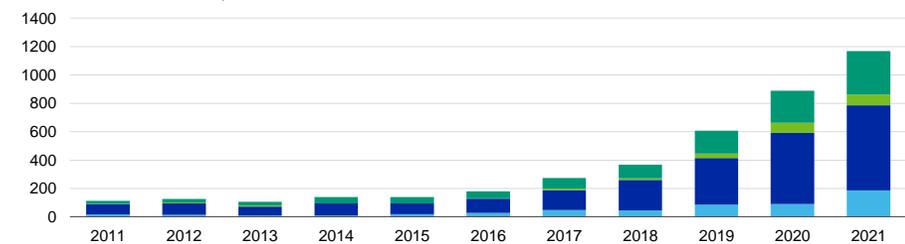
ESG content ESG Indices



Source: Optimas, 2020

GROWTH IN PRI SIGNATORIES

APAC Europe LATAM North America



Regulation is becoming the biggest market driver

Timeline



Classification of economic activities & reporting

- EU Taxonomy
- UK Taxonomy
 - *Upcoming taxonomies based on EU model: Malaysia, SK, Indonesia, South Africa*
- Chinese Taxonomy for green bonds/loans

2021 – Chinese Taxonomy for green bonds/loans
 Jan 2022 – EU Taxonomy started to apply
 2023 (tbc) – Earliest start application UK Taxonomy



Transparency / Disclosure Rules for Investors

- EU SFDR
- UK Sustainability Disclosure Regime (SDR)
- Mandatory TCFD Reporting (Hong Kong, upcoming in Canada and Singapore)

Mar 2021 – Start application EU SFDR
 Aug 2022 – Start application HK TCFD based climate disclosure
 2022 – UK developing SDR & Canada + SG TCFD reporting



Labels

- Green Bond Standard
- EU PAB & CTB regulation
 - *Upcoming EU green mortgages & financial ecolabels*
- Multitude of national labels for sustainable/green funds

Jul 2021 – EC EU Green Bond Standard legislative proposal
 2022 (tbc) – Potential EU ecolabel for financial services products



Banking rules

- Mandatory ESG risks disclosure for big EU banks as part of pillar 3 reporting
- Climate stress tests for banks: EU ECB, Singaporean MAS

Mar 2022 - Start 1st ECB + SG MA climate stress test
 31 Dec 2022 – Start Pillar 3 ESG risks reporting for large EU banks



Corporate / FI Sustainability Reporting

- EU Corporate Sustainable Reporting Directive
- UK mandatory TCFD reporting
- Singapore, Hong-Kong, Japanese mandatory climate/TCFD reporting for issuers and financial institutions
 - *Upcoming US SEC climate disclosure rules for issuers*
 - *Upcoming Canadian TCFD climate disclosure for financial institutions*
 - *Upcoming South Africa mandatory climate TCFD disclosure*
 - *Upcoming ISSB reporting standard*

6 Apr 2022 – Start application UK mandatory TCFD
 By Q4 2022 (tbc) – Finalisation new US SEC climate risk disclosure rules for listed companies
 2025 (tbc) – EU CSRD starts applying for NFRD entities



Supply Chain Due Diligence

- EU supply chain due diligence directive (SCDDD) on environmental and social impact (including biodiversity)

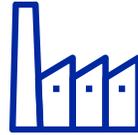
2025/2026 (tbc) – Earliest start application new EU supply chain due diligence rules

Hot Sustainability Topics in 2022



Access and affordability of products and services

Lower disposable incomes, rising inflation, uneven impacts of the pandemic.



Social and environmental risks in supply chains

Poor management of social and environmental risks in supply chains will compound ongoing operational resilience concerns.



Focus on working conditions and DE&I

Working conditions and wider human resource practices are growing in importance, alongside elevated diversity, equity and inclusion concerns.



Net zero pledges into action

Post-COP 26 pledges, demand growing for accountability and transparency.



Just transition risks growing for key sectors

The “just transition” will become a stronger component of net zero economy plans and policies.



Momentum on biodiversity

The launch of the Taskforce on Nature-related Financial Disclosures (TNFD) and growing requirements.



Impact management and measurement

Greater awareness of the responsibilities to invest in the infrastructure needed to take on systemic risks of the future.

Read more details in our Publication [ESG Themes for 2022](#)

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ESG Assessments and Data Providers

ESG Providers Landscape



Future Regulations for ESG Data Providers



What ESG Data Does the Market Need?



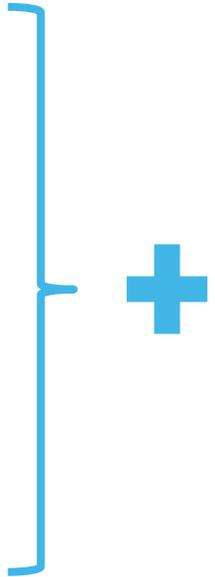
Coverage



Data Quality



Variety of topics



Raw data,
mapped data



Ratings,
performance
assessments,
and scores



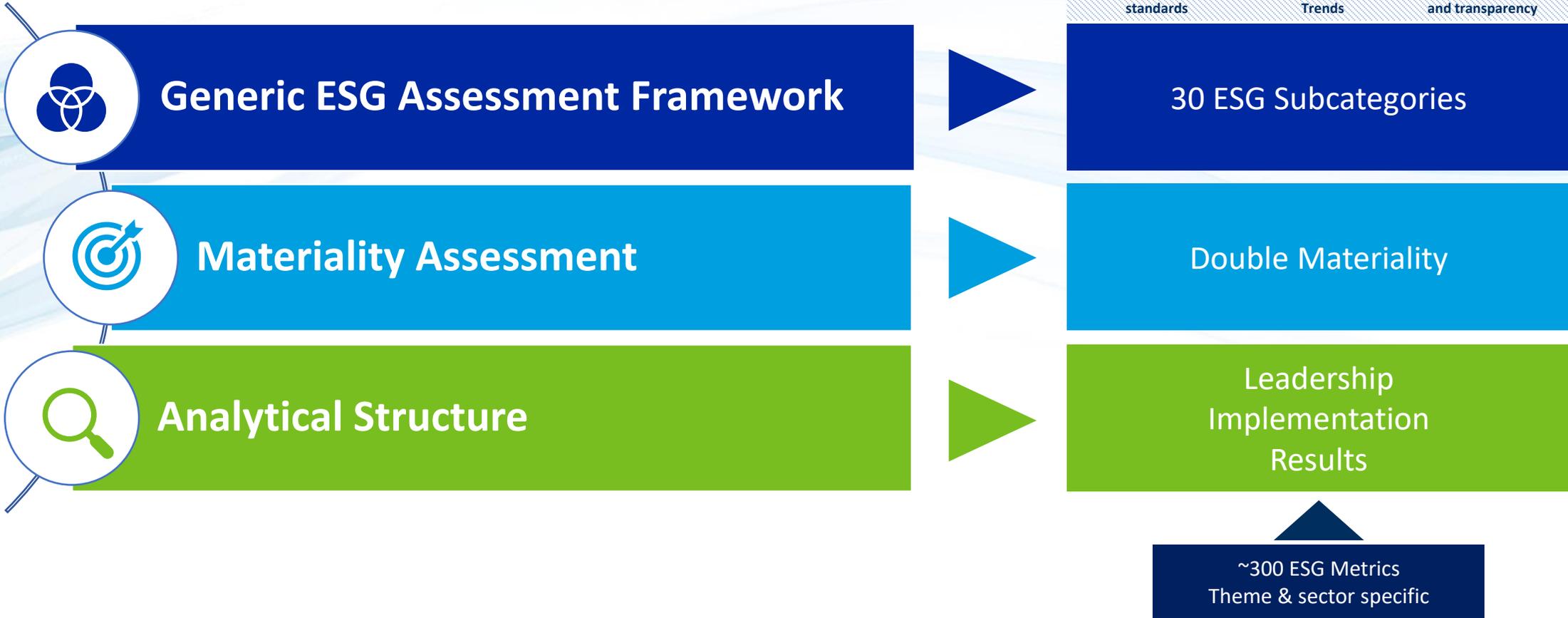
Double
materiality,
building the
bridge between
risk and impact

3

Moody's ESG Assessments

Our ESG Assessment Methodology

Basic Principles and Analysis Structure



Moody's ESG Assessment Framework

Consists of 3 components, 12 categories and 30 subcategories



Topic Examples



 **Diversity & Inclusion**

- » Oversight of Commitment to Diversity and Inclusion
- » Commitment to Promote Diversity and Inclusion
- » Mechanism for Reporting Diversity and Inclusion Concerns
- » Monitoring of Workforce Diversity
- » Training on Diversity and Inclusion
- » Monitoring of Pay Gaps



 **Business Ethics**

- » Commitment to Promote Ethical Business Practices
- » Auditing of Business Ethics Safeguards
- » Mechanism for Reporting Business Ethics Concerns - Confidential Reporting
- » Oversight of Commitment to Promote Ethical Business Practices
- » Mechanism for Reporting Business Ethics Concerns - Whistleblower Protection
- » Training on Ethical Business Practices



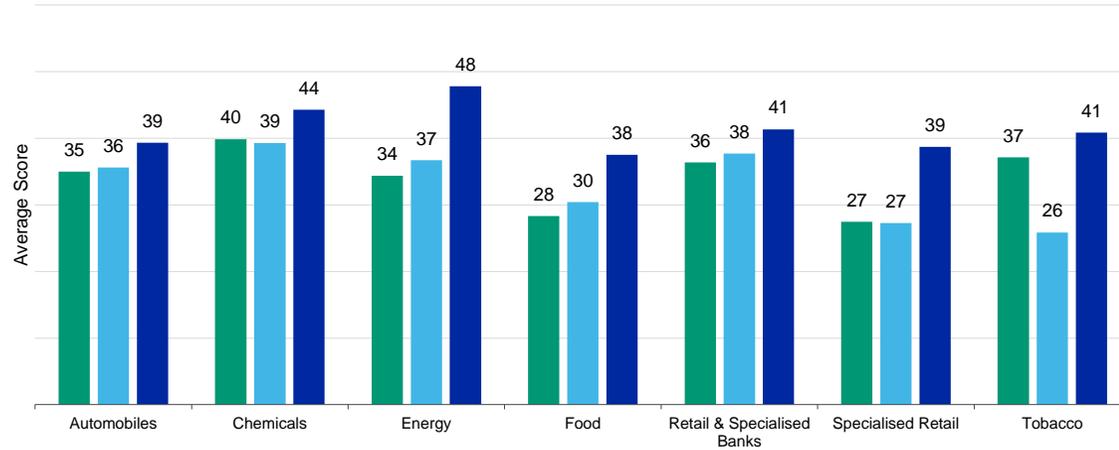
 **Biodiversity**

- » Monitoring of Biodiversity
- » Commitment to Respect Biodiversity
- » Commitment to Manage Biodiversity-Related Business Risks
- » Assessment of Impact on Biodiversity

Selected Assessment Results

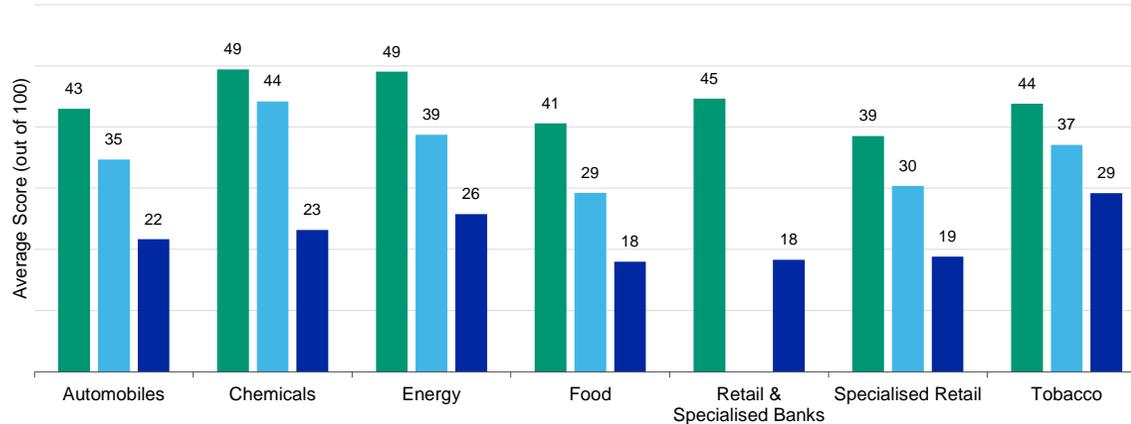
E,S,G SCORES FOR SELECTED SECTORS

Environment Social Governance

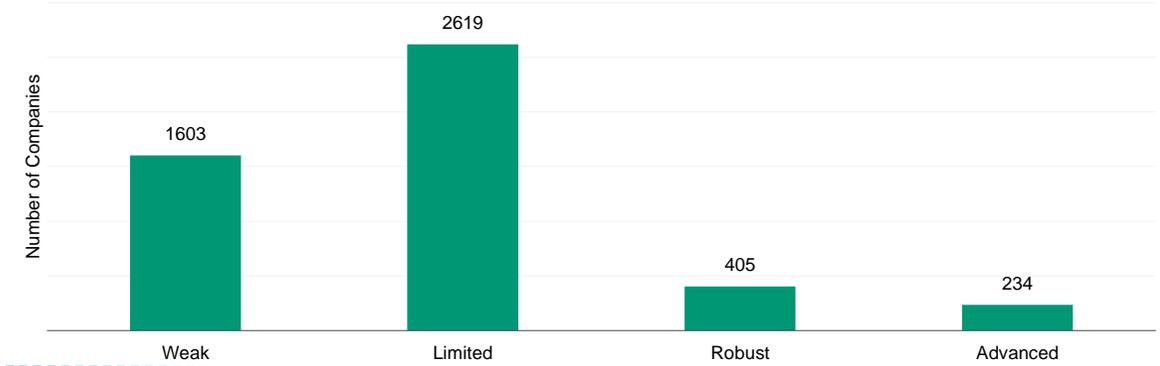


PERFORMANCE ON BUSINESS ETHICS FOR SELECTED SECTORS

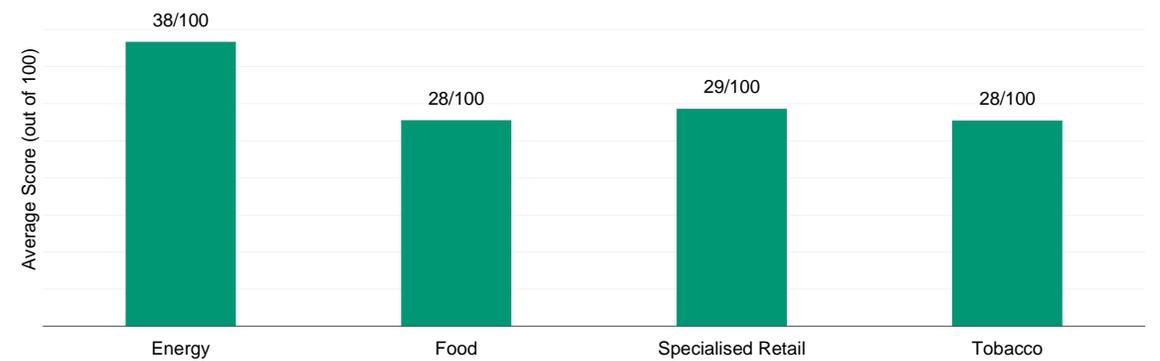
Corruption Anti-Competition Responsible Lobbying



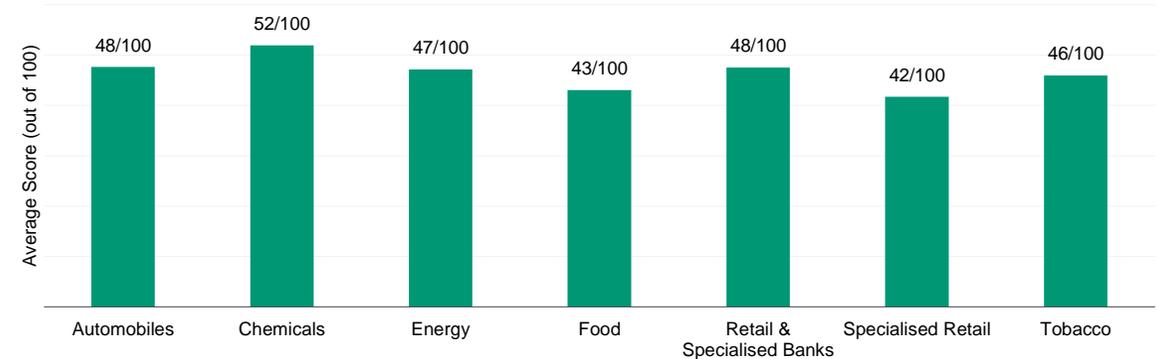
ESG SCORES DISTRIBUTION



BIODIVERSITY PERFORMANCE BY SELECTED SECTORS

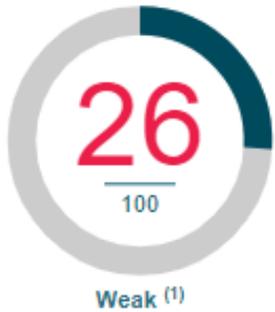


D&I PERFORMANCE BY SELECTED SECTORS



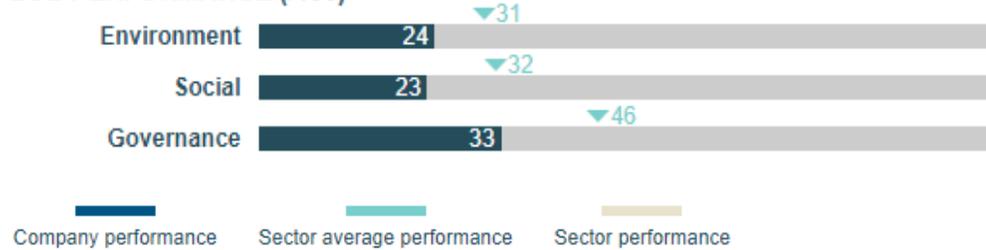
Company Results: Tesla Inc.

ESG OVERALL SCORE



Rank in Sector	21/25
Rank in Region	984/1296
Rank in Universe	3807/4885
Company Reporting Rate	69%
Sector Average Reporting Rate	71%
High severity controversies	Yes

ESG PERFORMANCE (/100)



(1) Performance level: weak (0-29/100), limited (30-49/100), robust (50-59/100), advanced (60-100/100)

TOPIC	COMMENT	TREND
Insufficient ESG reporting	The Company fails to report consistently on how it is responding to material sustainability challenges. This accounts for its weak overall ESG performance.	→
Controversies	Tesla faces several controversies in all domains. Recurrent allegations may result in serious reputational, legal, and financial risks if not addressed adequately.	→

Goods and services contributing to sustainable development*

Sustainable Goods & Services research provides a positive screening on companies to identify business activities devoted to sustainable solutions.



INVOLVEMENT	CATEGORIES
>=50%	Major
20-49%	Significant
0-19%	Minor
0%	None

Controversies Risk Mitigation



As of 2022/06/05, Tesla, Inc. is involved in 47 controversies. Given their severity and frequency and considering Tesla, Inc. responsiveness, the issuer's ability to mitigate controversy risks is considered as weak.

Company Results: TotalEnergies SE

ESG OVERALL SCORE



Rank in Sector	5/30
Rank in Region	234/1608
Rank in Universe	267/4892
Company Reporting Rate	96%
Sector Average Reporting Rate	81%
High severity controversies	Yes

ESG PERFORMANCE (/100)



(1) Performance level: weak (0-29/100), limited (30-49/100), robust (50-59/100), advanced (60-100/100)

Goods and services contributing to sustainable development*



Sustainable Goods & Services research provides a positive screening on companies to identify business activities devoted to sustainable solutions.

INVOLVEMENT	CATEGORIES
>=50%	Major
20-49%	Significant
0-19%	Minor
0%	None

ANALYST FOCUS

TOPIC	COMMENT	TREND
Pollution Prevention	TotalEnergies is exposed to risks related to pollution and industrial safety through spills. The Company has in place measures such as pollution control audits, risk assessments and measures or requirements for contractors. Moreover, the average age of tankers used to transport oil is seven years. The Company has also conducted a historical review of its polluted soil and has identified rehabilitation measures.	↗
Health and Safety	The Company performs exploration and production (E&P) activities, which exposes its workforce to H&S risks. Measures in place include audits and remuneration for employees based on H&S performance. Also, employee representatives are involved at group level to address H&S issues. The Company's total recordable injury frequency rate for employees and contractors decreased between 2018 and 2020.	→
Climate Change	Oil and gas E&P is a very energy intensive activity and has a significant climate change impact. To reduce its carbon footprint, TotalEnergies' ambition is to get to net-zero emissions by 2050. Moreover, the Company has set targets in terms of developing alternative fuels and renewable energy. KPIs such as GHG emissions and energy consumption normalised to upstream production decreased between 2018 and 2020.	↗
Corruption	In 2018, the court in Paris fined TotalEnergies with EUR 500,000 for corruption over USD 30 million paid in bribes to public officials in order to secure a gas concession in Iran. The Company set a Corruption Prevention Programme in response to this controversy; this includes internal and external audits, training and due diligence in evaluating contracts and suppliers.	→

Controversies Risk Mitigation



As of 2022/06/05, TotalEnergies SE is involved in 25 controversies. Given their severity and frequency and considering TotalEnergies SE responsiveness, the issuer's ability to mitigate controversy risks is considered as weak. TotalEnergies SE belongs to Moody's ESG Solutions's Warning List.

Company Results: Nestlé SA

ESG OVERALL SCORE

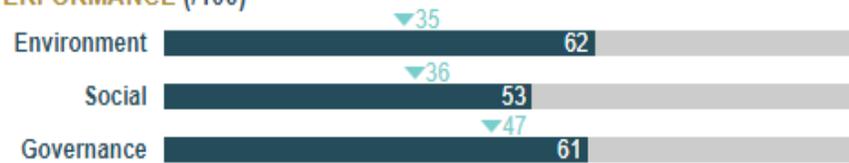


Rank in Sector	4/40
Rank in Region	234/1608
Rank in Universe	267/4892
Company Reporting Rate	92%
Sector Average Reporting Rate	73%
High severity controversies	Yes

ANALYST FOCUS

TOPIC	COMMENT	TREND
Controversies	Nestlé faces controversies on product safety, information to customers, supplier relationships, integration of environmental and labour factors in the supply chain management, prevention of corruption and anti-competitive practices, fundamental labour rights, biodiversity, water, social and economic development, access to product, audit and internal controls, social dialogue, as well as responsible management of reorganisations. The Company appears to be transparent on the majority, but corrective actions are only visible for few cases.	↘
Human capital risks	Nestlé's performance in the human capital risk is moderate and continues to report on convincing policies on some issues that are crucial to employees such as health and safety and non-discrimination and diversity. However, career management, social dialogue, reorganisation and fundamental labour rights are still areas of improvement for the Company. This represents an area of risk, as the Company needs to have systems to retain its employees, especially the most qualified ones, which is crucial to stay competitive.	→
Environmental issues	The Company commits to all of its responsibilities in terms of environmental protection. Relevant supportive measures towards all issues under review and disclosed KPIs appear to be on a positive trend.	→

ESG PERFORMANCE (/100)



Company performance Sector average performance Sector performance

(1) Performance level: weak (0-29/100), limited (30-49/100), robust (50-59/100), advanced (60-100/100)

Goods and services contributing to sustainable development*



Sustainable Goods & Services research provides a positive screening on companies to identify business activities devoted to sustainable solutions.

INVOLVEMENT	CATEGORIES
>=50%	Major
20-49%	Significant
0-19%	Minor
0%	None

Controversies Risk Mitigation



As of 2022/06/05, Nestlé SA is involved in 38 controversies. Given their severity and frequency and considering Nestlé SA responsiveness, the issuer's ability to mitigate controversy risks is considered as weak.

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Legal ESG Topics

Michaela Sopp



Hot Legal ESG Topics in 2022

Selection of KPI's

- Net Zero
- Bio Diversity
- Energy Consumption
- More focus on social as well as DE & I
- Rating as additional feature

Reporting and Monitoring

- Annual updates
- Sustainability Reports
- Reviewed/Audited by Company's auditors or third party (second) opinion providers
- Public Reporting to stakeholders can be used

ESG-Triggers

- Margin-Adjustments
- KPI's-Breach no Event of Default

Unsere Referenten heute



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