



# Environmental, Social and Governance (ESG) Risk Scoring for Structured Finance

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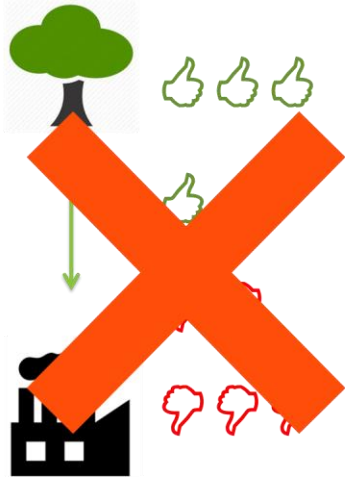
# We Are Measuring Which ESG Risks Appear in Our Ratings



Source: Fitch Ratings



# We Are NOT Measuring Overall ESG Performance



Source: Fitch Ratings

# How Are We Defining Relevance and Materiality to Credit?

Relevance Score	Definition
5	Highly relevant, a key transaction or program rating driver that has a significant impact on an individual basis.
4	Relevant to transaction or program rating; not a key rating driver but has an impact on the ratings in combination with other factors.
3	Minimally relevant to ratings, either very low impact or actively mitigated in a way that results in no impact on the transaction or program rating.
2	Irrelevant to the transaction or program ratings; relevant to the sector.
1	Irrelevant to the transaction or program ratings; irrelevant to the sector.

# Summary Stats on ESG Relevance Scores By Asset Class

Fitch Analytical Groups	ESG Templates	# of Issuers / Transactions	# of Data Points	# of E Scores	# of S Scores	# of G Scores	% Some Impact
Corporates	52	1,577	22,078	7,885	7,885	6,308	22%
Financial Institutions	4	986	13,804	4,930	4,930	3,944	20%
Sovereigns	1	118	1,770	590	590	590	100%
Public Finance & Infrastructure	20	2,683	38,676	13,415	13,415	11,846	5%
<b>Structured Finance</b>	<b>18</b>	<b>4,821</b>	<b>67,494</b>	<b>24,105</b>	<b>24,105</b>	<b>19,284</b>	<b>18%</b>
Totals	95	10,185	143,822	50,925	50,925	41,972	16%



# An Example of SF ESG Relevance Scoring

FitchRatings

JPMMT 2018-8

SF ESG Navigator  
RMBS

## Credit-Relevant ESG Derivation

JPMMT 2018-8 has 1 ESG rating driver and 6 ESG potential rating drivers

- + JPMMT 2018-8 has exposure to counterparty risk: origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator/servicer/manager/operational risk which, in combination with other factors, impacts the rating.
- ➔ JPMMT 2018-8 has exposure to asset: operations and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornados, and earthquakes but this has very low impact on the rating.
- ➔ JPMMT 2018-8 has exposure to macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior and underlying mortgages and/or mortgage availability but this has very low impact on the rating.
- ➔ JPMMT 2018-8 has exposure to jurisdictional legal risks; regulatory effectiveness; supervisory oversight; foreclosure laws; government support and intervention but this has very low impact on the rating.
- ➔ JPMMT 2018-8 has exposure to asset isolation; resolution/insolvency remoteness; legal structure; structural risk mitigants; complex structures but this has very low impact on the rating.
- ➔ JPMMT 2018-8 has exposure to transaction data and periodic reporting but this has very low impact on the rating.

			Overall ESG Scale
Key driver	0	Issues	5
driver	1	Issues	4
potential driver	6	Issues	3
not a rating driver	3	Issues	2
	6	Issues	1

FIVE ENVIRONMENTAL

FIVE SOCIAL

FOUR GOVERNANCE

20 TEMPLATES

E & S COLLAT. SPECIFIC

G UNIFORM

## Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	2	Environmental legal risks; regulatory effectiveness; sustainable building practices including Green Building certificate credentials	Asset Quality; Financial Structure; Surveillance	2
Exposure to Environmental Impacts	3	Asset, operations and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornados, and earthquakes	Asset Quality; Financial Structure; Surveillance	1

**How to Read This Page**  
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular asset class. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the transaction's or program's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the transaction's or program's credit rating. The three columns to the left of the overall ESG score summarize the transaction's or program's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the transaction's or program's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific issues draw on the classification standards published by the Sustainability Accounting Standards Board (SASB).

## Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Accessibility to affordable housing	Asset Quality; Financial Structure; Surveillance	5
Customer/Venture - Fair Messaging, Privacy & Data Security	2	Compliance risks including fair lending practices; mis-selling; repossession/foreclosure practices; consumer data protection (data security)	Asset Quality; Operational Risk; Surveillance	4
Labor Relations & Practices	1	n.a.	n.a.	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior and underlying mortgages and/or mortgage availability	Asset Quality; Financial Structure; Surveillance	1

## Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Rule of Law, Institutional and Regulatory Quality	3	Jurisdictional legal risks; regulatory effectiveness; supervisory oversight; foreclosure laws; government support and intervention	Asset Isolation and Legal Structure; Asset Quality; Rating Caps; Surveillance	5
Transaction & Collateral Structure	3	Asset isolation; resolution/insolvency remoteness; legal structure; structural risk mitigants; complex structures	Asset Isolation and Legal Structure; Asset Quality; Financial Structure; Rating Caps; Surveillance	4
Transaction Parties & Operational Risk	4	Counterparty risk; origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator/servicer/manager/operational risk	Asset Quality; Financial Structure; Operational Risk; Rating Caps; Surveillance	3
Data Transparency & Privacy	3	Transaction data and periodic reporting	Asset Isolation and Legal Structure; Asset Quality; Financial Structure; Surveillance	2
				1

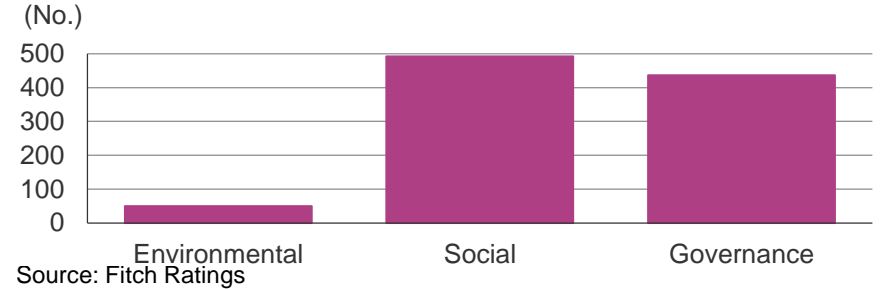
## CREDIT-RELEVANT ESG SCALE - DEFINITIONS

How relevant are E, S, and G issues to the overall credit rating?	
5	Highly relevant; a key transaction or program rating driver that has a significant impact on an individual issue.
4	Relevant to transaction or program ratings; not a key rating driver but has an impact on the ratings in combination with other factors.
3	Ultimately relevant to ratings; either very low impact or actively mitigated in a way that results in no impact on the transaction or program ratings.
2	Irrelevant to the transaction or program ratings; relevant to the sector.
1	Irrelevant to the transaction or program ratings; irrelevant to the sector.

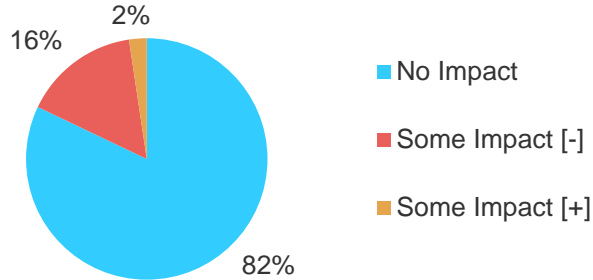
# ESG Relevance Score: SF Scoring Results

**4,704  
Transactions  
+ 117 CVBs**

## ESG Elements Driving Transaction Credit Impact



## Relevance to Transaction Portfolio



Source: Fitch Ratings

# Fitch Ratings – Structured Finance ESG Resources

Important takeaways:

- Relevance and materiality to ratings
- Sector-specific issues reflect collateral types
- ESG factors relevant for 18% for SF transactions

[Introducing ESG Relevance Scores for Structured Finance and Covered Bonds](#)

[SF and Covered Bonds ESG Dashboard Compendium](#)

[What Investors Want to Know: Structured Finance and Covered Bond ESG Relevance Scores](#)

[Structured Finance and Covered Bonds ESG Relevance Map](#)

This and more information available at [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

Global Home > ESG

**Environmental, Social and Governance - Defining Relevance to Credit**  
Fitch Ratings has launched a new integrated scoring system which shows how environmental, social and governance (ESG) factors impact individual credit rating decisions. We are the only CRA who currently offers this level of granularity or transparency about the impact of ESG on fundamental credit.  
[Read the Announcement](#) | [Read Our FAQ](#)

**ESG RISK**

**Introducing ESG Relevance Scores for Financial Institutions**  
Nearly 20% of global financial institution ratings are currently influenced by governance risk according to an analysis of new Environmental, Social & Governance (ESG) Relevance Scores. ESG risks overall have a low level of direct impact on financial institution credit ratings. The scores cover over 900 banks, non-bank financial institutions and insurance companies around the globe. [Download our ESG Financial Institutions special report to learn more](#)

**ESG Risks Limited For US Non-Life (Re)insurance Ratings**  
For US non-life companies, environmental issues can be particularly relevant given a significant number of individual carriers' underwriting exposure to natural catastrophe risk and latent asbestos and environmental losses.

**Download our ESG Relevance Scores**  
Fitch has assigned ESG Relevance Scores across its internationally-rated portfolio. Review all of the scores via our ESG Dashboard Compendiums here:  
[Corporates](#) • [Global Banks](#) • [Insurance](#) • [NBFI](#)

**RESOURCES & HIGHLIGHTS**

Initial findings – Corporate Credit Profiles Most Influenced By ESG  
[How Our Relevance Scores Work \(Video\)](#)  
Capturing Environmental, Social and Governance Risk in Credit Ratings  
[Green Bonds – Fitch Ratings and Market Overview](#)  
[Green Bond Funds Face Diversification Challenge](#)  
2018 to be a Pivotal Year for European Green Bond Funds

**UN Principles for Responsible Investment**

**ESG Relevance Scores for Financial**



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