



SFA ESG Symposium
Key Takeaways

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SFA's inaugural ESG in Structured Finance Symposium was at full capacity and brought together nearly 200 engaged participants from the structured finance market and beyond to discuss ways to integrate ESG principles and practices into our market. We look forward to engaging with SFA members on this important issue in 2020 via our ESG Task Force and future events.

Overview

- SFA hosted **nearly 200 members, and other market participants and industry experts** for a day long Environmental, Social, and Governance (ESG) Symposium on December 5, 2019. The Symposium featured a productive and interactive dialogue on many important topics related to ESG, facilitated by discussion leaders with relevant experience and expertise. Specifically, **members from over 55 firms** led an active dialogue across a series of topics pertaining to the adoption of ESG principles into the structured finance industry such as how we can promote ESG engagement, the various ESG investing approaches, and the potential future areas of ESG that SFA can explore and help cultivate.
- Early in the day, attendees focused on the following topics:
 - Where did the concept of ESG investing and sustainable finance originate from and how has it evolved over the past few decades?
 - How do rating agencies and investors incorporate ESG into their ratings and investment methodologies?
 - What key lessons can the structured finance market utilize from other markets?
- Following this detailed overview of ESG in structured finance and other markets, attendees engaged in rigorous discussion surrounding the various current and potential approaches to applying these ESG principles to structured finance. Topics included:
 - What does it mean to assess E, S, and G in structured finance, and what should investors consider when applying factors in each of the three pillars?
 - What does the integration of ESG look like across asset classes?
 - How can we standardize data reporting with regard to ESG factors?

Themes of the Day

Conversations throughout the day centered around three themes highlighted below. Further, the perspectives shared informed questions that we, as an industry, will consider on a go-forward basis as part of our 2020 discussions on supporting ESG efforts in our market.

Varying but Growing ESG Engagement

- It is clear there are vast differences – both in the U.S. and globally – across institutions and across sectors as to where each fall in the various stages of developing ESG-focused principles, missions and business practices.
- Similarly, structured finance market participants represent a wide range of engagement and varying levels of involvement when it comes to developing ESG frameworks.
- These levels of involvement span from the beginning stages to fully integrated including:
 - Researching, assessing and developing;
 - Outline of initial ESG framework that continues to progress and evolve;
 - Undertake evaluation of ESG factors internally and develops independent assessments;
 - Fully developed ESG approach (exclusionary / actively seeks ESG exposure / includes both qualitative and financial analyses and assessments); and
 - Market leaders with developed approaches and transparency.
- In all stages described above, market participants may use third-party data sources – in whole or in part – to make assessments and inform decisions.

Range of ESG Investing Approaches

- Institutional investors, who have begun integrating ESG criteria into their investing plan, have various approaches to ESG investing.
- The range of strategies discussed included impact on credit assessment, negative screening/exclusions, inclusion, thematic investing, impact investing and active ESG integration (where both ESG factors and traditional financial materiality factors are used to identify and assess an investment decision).
- Some investors have clearly defined guiding principles that assist portfolio managers in assessing investment opportunities including, in some cases, evaluating each issuer in terms of sustainably and offering social benefits via products and services.

- There are varied approaches to data use as well, and investors leverage and combine the below external sources for ESG data:
 - Ratings (third party)
 - Rankings (third party)
 - Raw data
- Finally, many firms are using external data sources to supplement their own internal analysis in order to build decisioning engines and screens to assess whether a security fits the investing goals and ESG parameters for a particular fund or client.

Surge in Transparency Provided into ESG Impact on Credit Ratings

- The Credit Rating Agencies each presented their approaches for assessing ESG within structured finance – highlighting the significant effort invested in providing transparency in how ESG issues, such as the move to a low-carbon economy, socially responsible lending and good governance, inform their credit assessment.
- A common theme throughout was the focus on financial materiality and impact on credit ratings.
- Investors in attendance expressed appreciation for the enhanced disclosure they are seeing across the rating agencies in how ESG factors are considered in their methodologies.

Areas to Explore

- SFA can leverage precedent set in other sectors and by other institutions to determine where there are potential applications for structured finance. A few key examples are:
 - UN Principles for Responsible Investing: [Task Force on Climate-related Financial Disclosures](#)
 - Sustainable Accounting Standards Board: [SASB](#), along with Bloomberg and State Street Global Advisors, developed an ESG scoring solution that measures “financially material” ESG metrics across 77 industries and 17 regulatory regimes. It is the first ESG disclosure framework that focuses on financial materiality at the corporate level.
 - ESMA and other regulatory activities: in Europe, regulators have had a significant impact on increased ESG awareness and actions
 - ESG taxonomy from EU regulators is expected to be published relatively soon

- [Non-Financial Reporting Directive](#) that came into effect in all EU member states in 2018
- Existing third-party providers of ESG scores and rankings:
 - There is a growing plethora of data sources
 - Are they consistent? What type of data does each offer?
- Developing an ESG common language and standardized data reporting within the structured finance sector will be crucial:
 - Promoting clear and consistent definitions and terminology of ESG is paramount to the quality and utility of any ESG data and reporting framework that is developed
 - Consistent disclosures for ESG will be necessary to be useful to investors and therefore have potential to be adopted broadly across the industry
 - Agreement is needed on which factors for E, S, and G are to be included in any reporting regime
 - ABCP example:
 - Does disclosure differ for different vehicle types?
 - Is the right approach to begin with minimum thresholds?
 - Goal to provide overall score for all exposures/asset types
 - What is an appropriate timeline for disclosure standardization? What data is not yet available?

Potential Work Streams for SFA

- SFA member survey to assess:
 - Current ESG investment approach used by investors;
 - Current engagement level;
 - Level of dedicated personnel for ESG-related initiatives;
 - Use of quantitative ESG data; and
 - Forward-looking view of ESG development.
- Definitional consistency and standardized disclosure workstream:
 - Consider benefits of partnering with an existing organization(s) leading disclosure consistency in other sectors;
 - Identify what investors are seeking in ESG reporting and disclosure for structured finance investments;

- Determine what information issuers and sponsors are able to provide from the perspectives of data availability and operational considerations; and
- Develop industry best practice disclosure regime by asset class.

Next Steps

- With increasing market focus on ESG investing, SFA is excited to be at the forefront of the conversations with the launch of our ESG initiative at our ESG in Structured Finance symposium. Advancing the integration of ESG factors into business standards and practices will require industry-wide collaboration.
- We are encouraged by the robust dialogue among the broad range of market participants at our symposium, and look forward to developing work streams through which market participants can create deliverables and develop best practices that will add value to the entire industry for ESG investing applications.
- In January 2020, SFA will begin hosting a regular cadence of ESG Task Force conference calls for our members to begin working on the workstream(s) that emerged from symposium and establish consensus wherever possible. **Please join our [ESG Task Force](#) to be a part of the conversation.**

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