

ESG IN CREDIT SERIES: ESG INTEGRATION IN FIXED INCOME IN PRACTICE

Presenters:

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17 November 2020



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CFA Institute x Fitch Ratings ESG in Credit Webinar Series – Part 1



FitchRatings

ESG in Credit Webinar Series -
ESG in Fixed Income



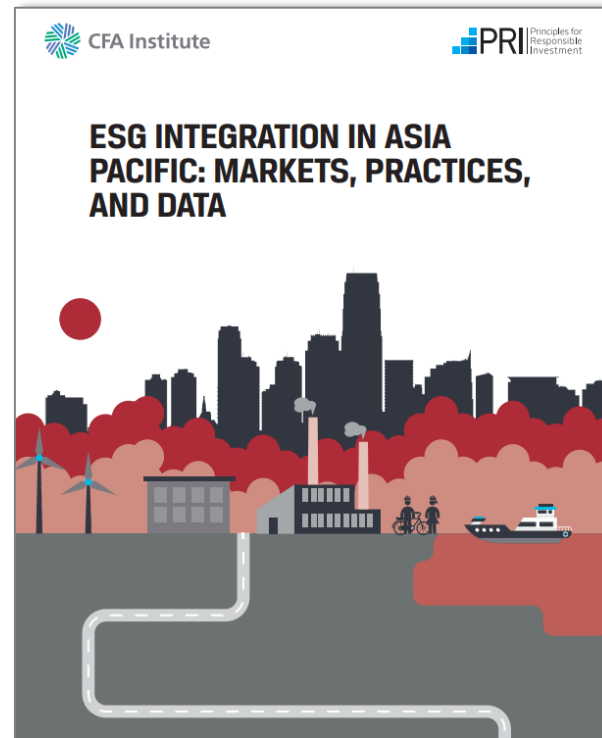
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<https://cfainst.is/2PHu6sq>



CFA Institute x PRI Report ESG Integration in Asia Pacific



DOWNLOAD THE REPORT



<https://cfainst.is/2UxBGYW>

Carmen Nuzzo

Head of Fixed Income,
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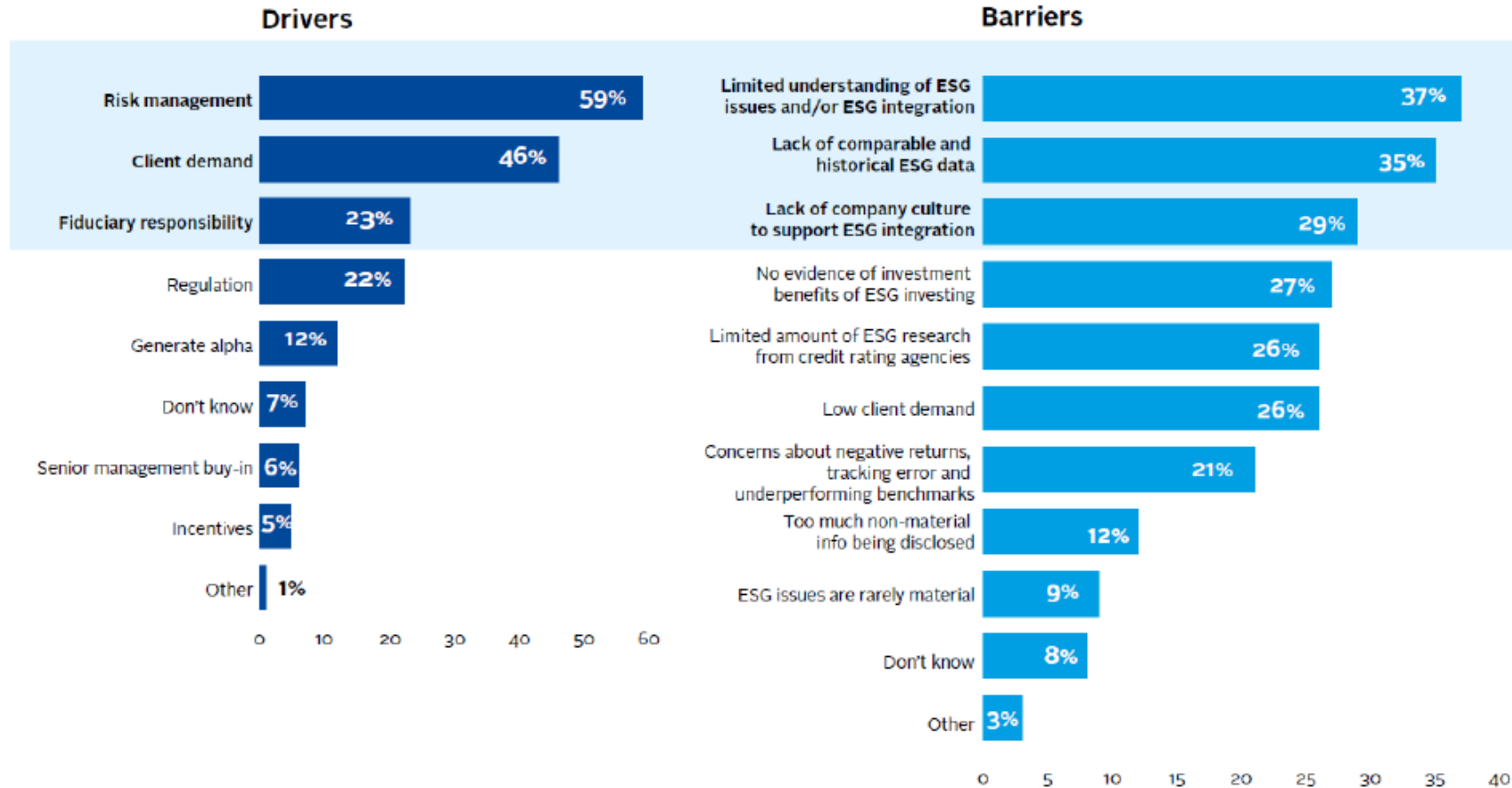
ESG in Credit Risk and Ratings Initiative

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From October 2019, the ESG in Credit Risk and Ratings initiative is funded by the Gordon and Betty Moore Foundation through the Finance Hub, which was created to advance sustainable finance.

ESG integration in fixed income: drivers and barriers



Source: CFA Institute and PRI (2018). Guidance and case studies for ESG integration – equities and fixed income

Main risks for fixed income investors

- Inflation
- Policy rate
- Credit risk
- Liquidity

Source: PRI

The ESG in credit risk and ratings statement

165

Institutional Investors
(~US\$30trn AUM)

23

Credit Rating Agencies (CRAs)



Source: PRI



Why involving credit rating agencies?

AAA

BB+

D

- Further the understanding of financially material ESG factors
- Investor-CRA dialogue
- Addressing disconnects and misconceptions

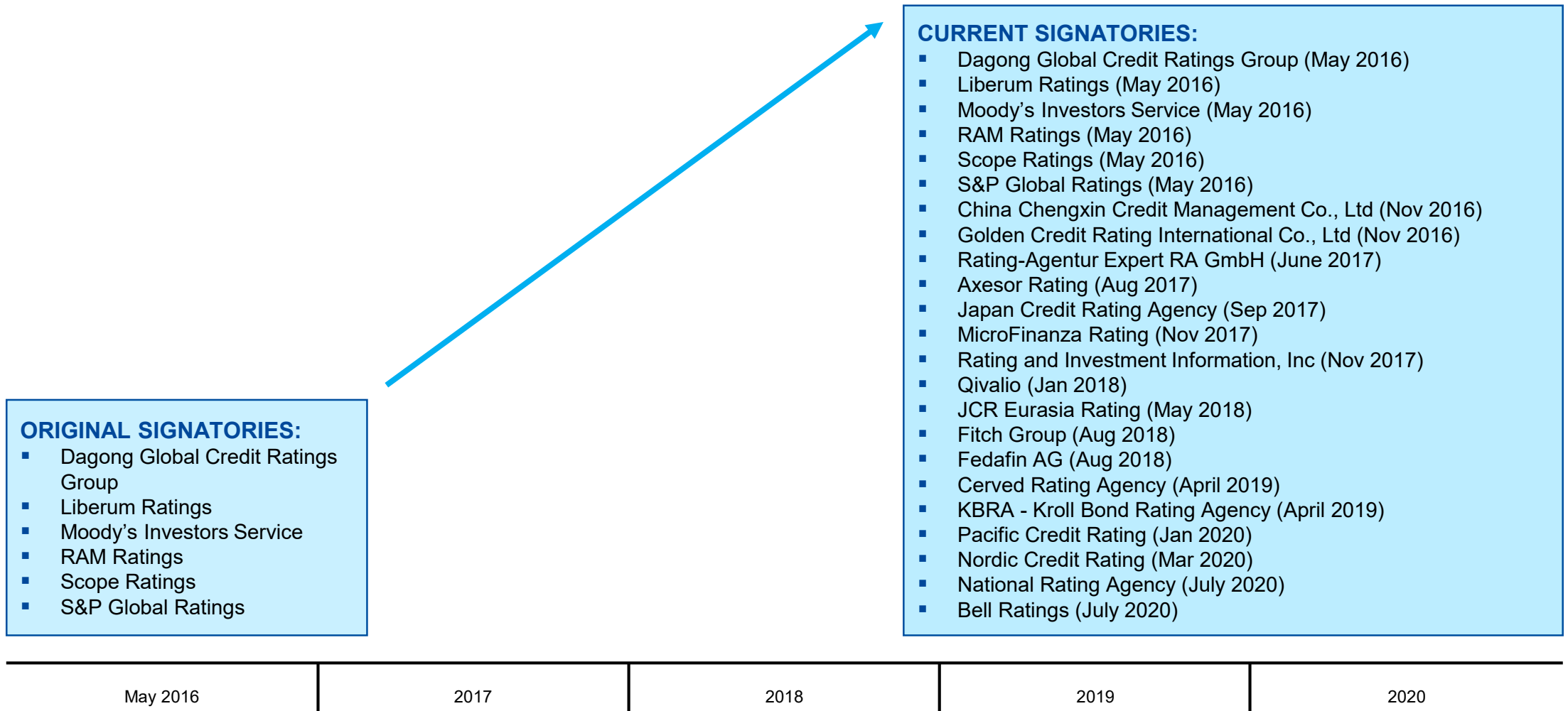
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Source: PRI

The CRAs supporting the statement



Source: PRI

The initiative's milestones (phase 1)

22 Regional ESG in credit risk and ratings forums
(Sep 2017 to Dec 2019)

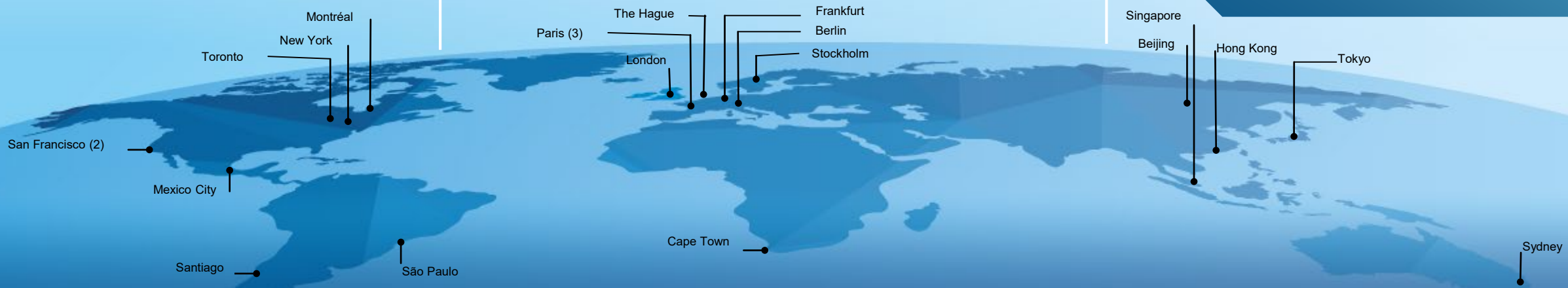
530+ Forum active (participants globally)

Consider the financial materiality of ESG factors to credit risk transparently and systematically



4 reports

- Action areas for future progress
- Evidence from CRAs
- 23 investor case studies
- Takeaways from the EM forums



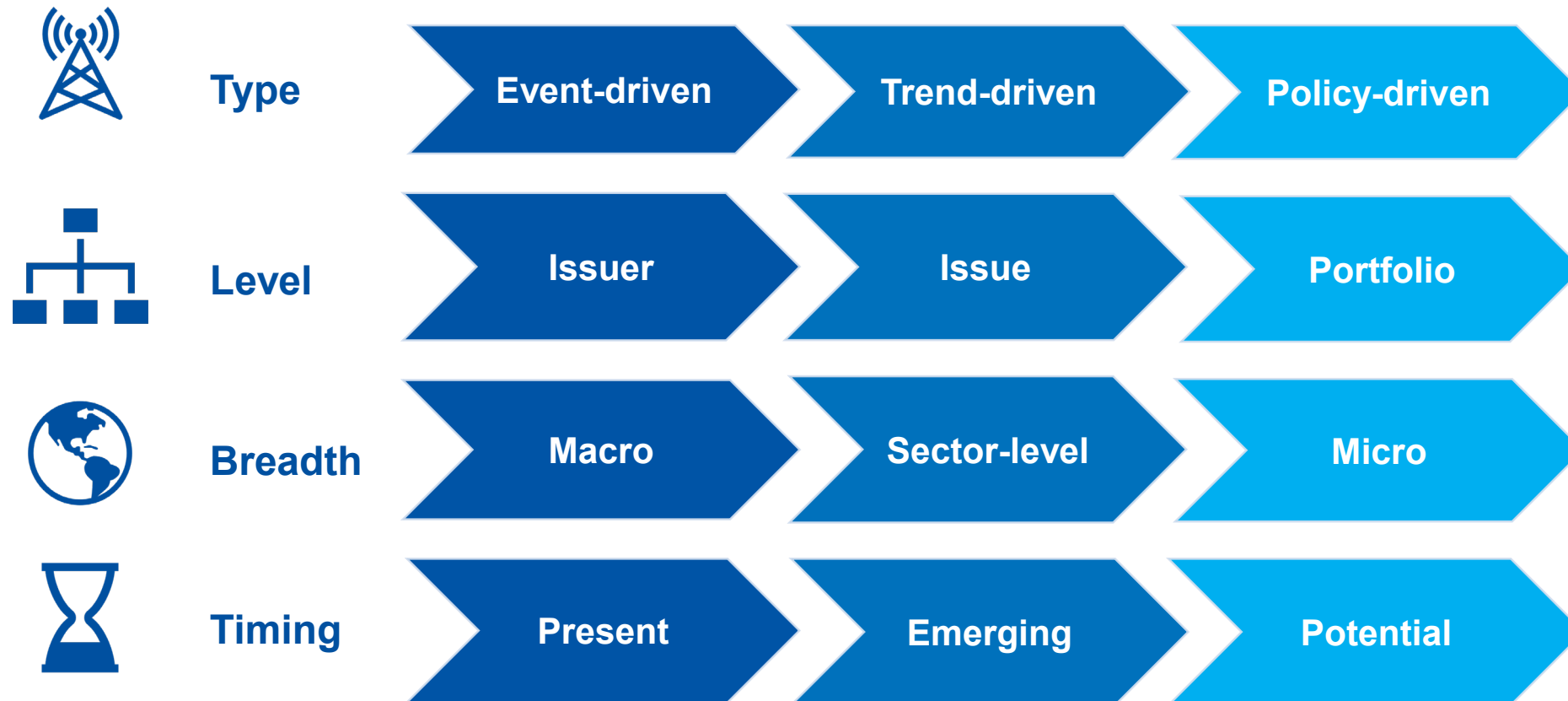
Initial investor-CRA disconnect



- **Materiality**: which ESG factors affect an issuer's risk of default
- **Visibility**: what is a 'reasonable' time horizon to consider
- **Approach**: the challenge of a 'built-in' approach and of building organisational capacity
- **Transparency**: need for better communication and consistent language

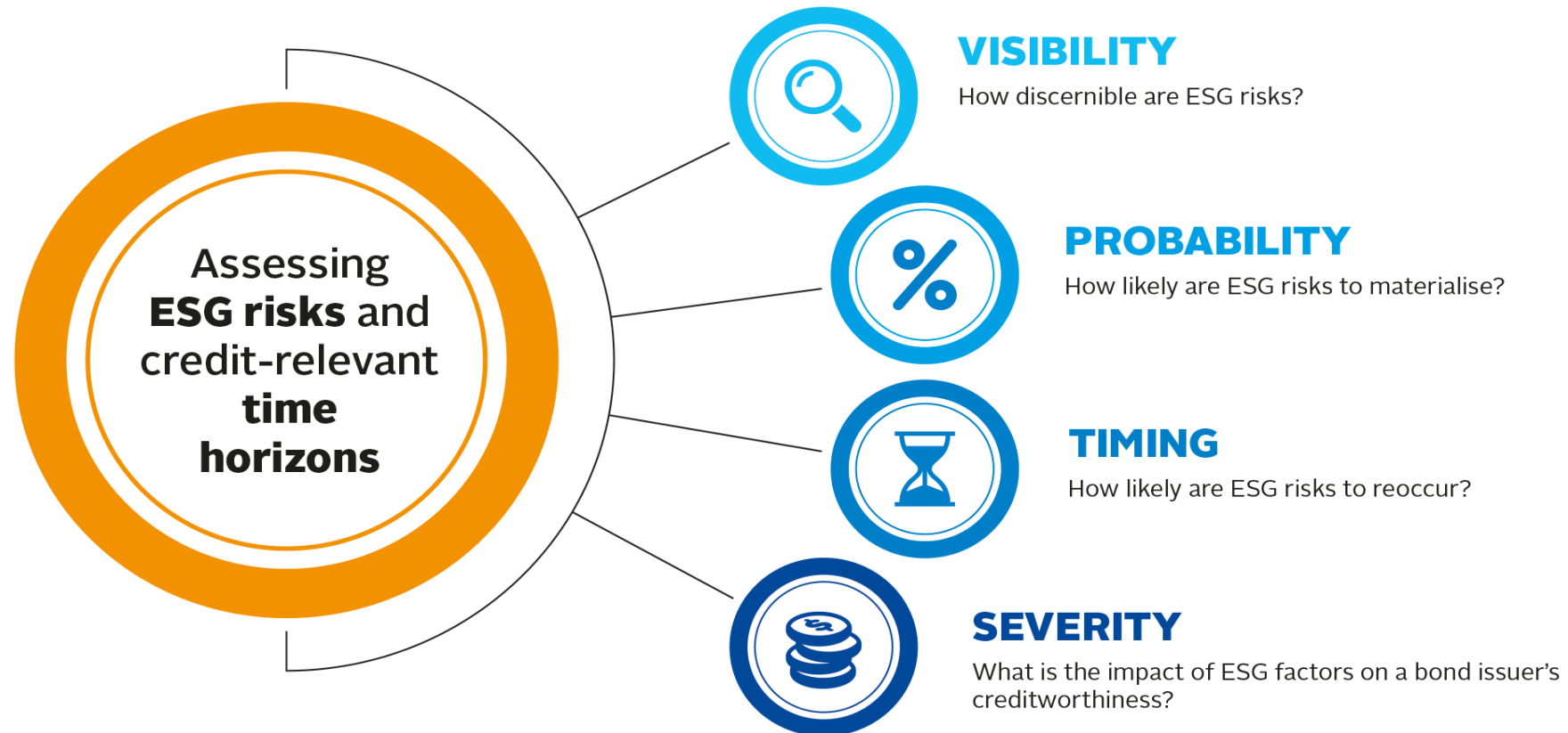
Source: PRI

Categorising material ESG factors



Source: PRI

Choosing credit-relevant time horizons



Source: PRI

CRA quarterly updates

Bookmark: www.unpri.org/credit-ratings

ESG IN CREDIT RISK AND RATINGS

CRA QUARTERLY
UPDATES

Source: PRI

Broadening stakeholder engagement (phase 2)

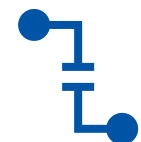
Workshops bringing **credit analysts** and **debt issuers** together



Source: PRI



Communication



Materiality



Data challenges



Sector specific issuer

It is not too late to sign the initiative

Bookmark:

www.unpri.org/fi

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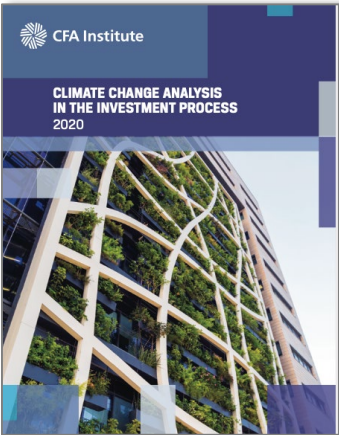
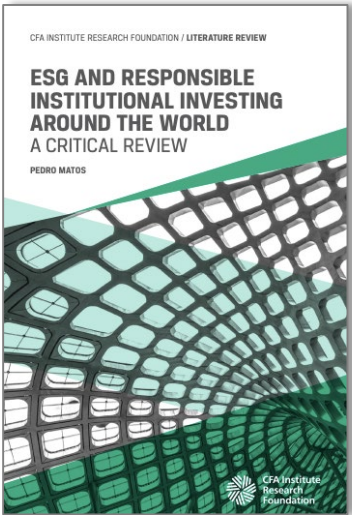
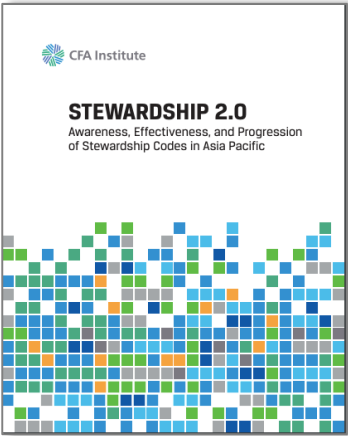
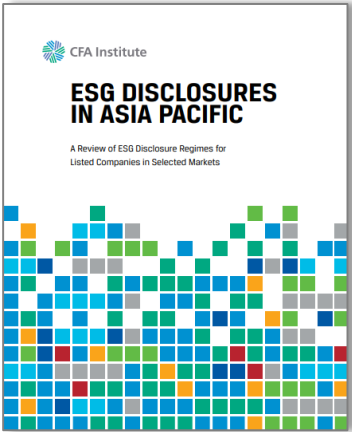


Source: PRI

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